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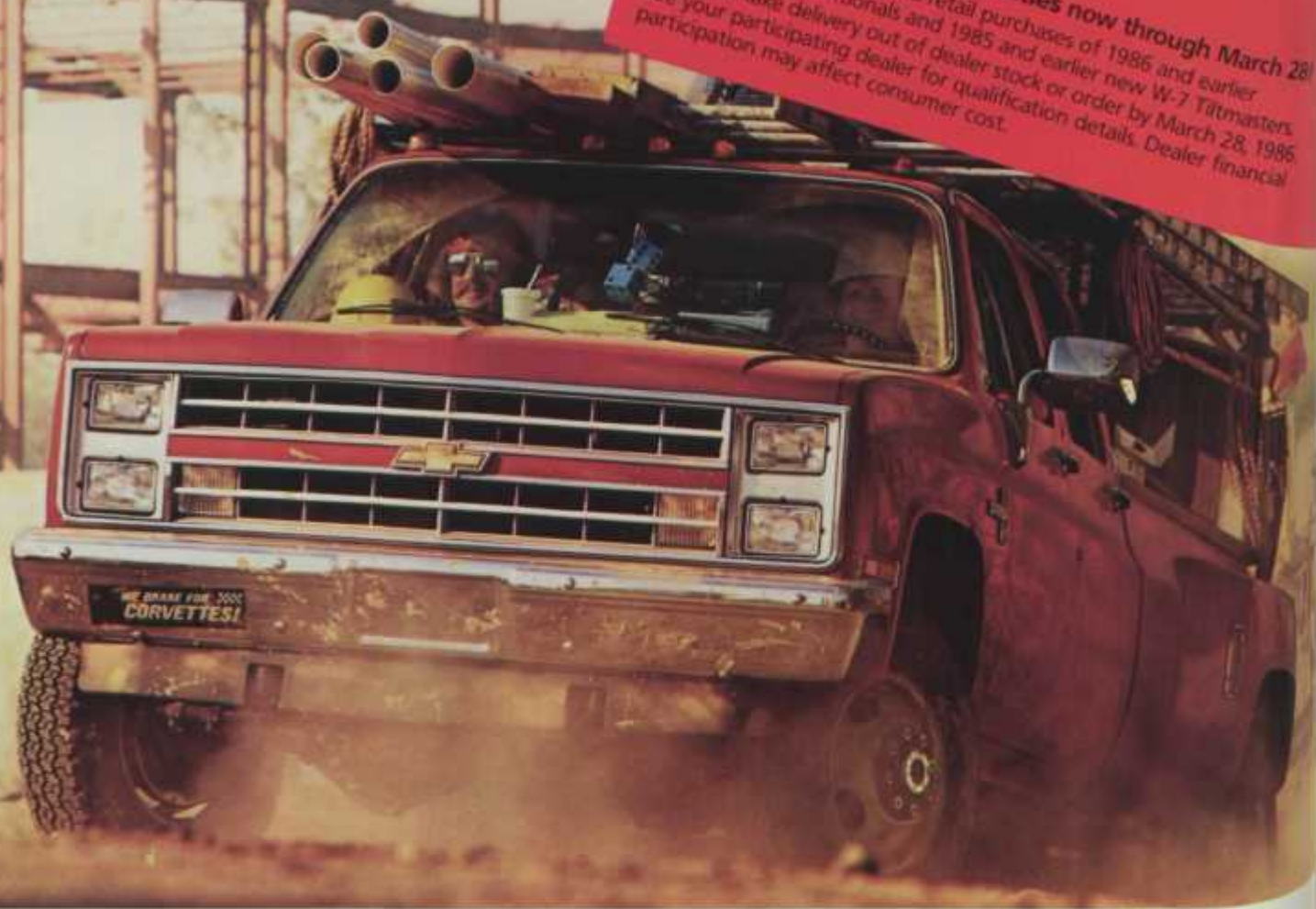
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THE NATION'S BUSINESS

The Reagan administration may decide soon what stance the government should take on employment opportunities for minority workers. (Page 12)



PHOTO: SKIP BROWN—FOLO

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PHOTO: ERIC ROBBINS

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Cover: Charles Moore—Black Star

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PHOTO: SUSAN MUMMA

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Max De Pree, chief executive officer of Herman Miller, Inc., believes that people are the source of his company's innovativeness. (Page 77)



PHOTO: RICHARD DERE

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The head of Herman Miller, Inc., believes in innovation not just in his company's products but also in its approach to its people.

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GTE's Robert Miller is one of the managers of new office network technologies that will link all kinds of resources. (Page 54)



PHOTO: DON STEVENSON—BLACK STAR

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Hail, And Farewell

I write these lines—the last such lines I shall be writing for NATION'S BUSINESS—on a bright morning in mid-January. Washington is my beat, but I live and work in a cottage in the Blue Ridge Mountains of Virginia. Just outside the window to my left, the house covey of quail is skittering across a frozen lawn. Over at the main house a fire is crackling quietly in the kitchen fireplace. It is a good time and place for reflection on the American Republic, its liabilities and assets, the bad news and the good news.

Let me begin by expressing a few concerns. I am concerned about what seems to me the steady deterioration of our political process. Somewhere along the way we seem to have abandoned that sense of national purpose which once animated our public affairs. The country's motto has been "E Pluribus Unum," one out of many. A better motto to these days might be, "Every Man for Himself." Early in 1985 President Reagan sent up his proposed budget for fiscal 1986. In an effort to reduce the prospective deficit, he recommended dozens of cuts in federal spending programs. Lobbyists came swarming to Capitol Hill like bees to a busy hive. No one was willing to give up a dime.

We heard the same chorus of "mine-mine-mine" later in the year, when Congress turned its attention to deficit reduction. During consideration of the Gramm-Rudman-Hollings bill, mandating a zero deficit in 1991, every man jack who could plead for special treatment was howling for exemption.

After Gramm-Rudman-Hollings came tax reform. The same chorus tuned up. We heard at full volume from mayors and governors; we heard from bankers and real estate salesmen; we heard from the heads of great charities; we heard from spokesmen for business. They all said the same thing: Yes, they favored fairness and yes, they favored simplification, but no, not at their own expense.

Now the chorus of self-interest is swelling again. The President's budget for 1987, it is said, cuts too deeply into both defense and nondefense spending. The republic cannot survive without this program or that program. Taxes must be increased! (But don't tax me. Tax the other guy.)

The U.S. Senate often reflects the national mood. Not long ago Missouri's Tom Eagleton charged that the Senate is in a state of "incipient anarchy," as old unwritten rules of comity and courtesy go by the boards. It is a rare month that passes without the threat—or the actuality—of a filibuster intended to tie the Senate into parliamentary

I intend to do the reading and thinking that an overcrowded schedule now prevents.



knots. The device of the senatorial "hold" is constantly abused for the most partisan or personal reasons.

I am concerned about the burgeoning importance of political action committees in our political process. There are 4,000 of these committees. They raise immense amounts of money, and with this money the PACs buy access. In a free society, to be sure, we ought to be free to contribute to candidates for public office in the most effective way that can be devised. I accept that principle, but all the same, access ought not to be for sale.

Beyond my Washington beat are other concerns. The state of public education ranks high among them. We saw a surge of improvements in the year following the 1983 report of the National Commission on Excellence of Educa-

tion, but I have an uneasy feeling that the steam is leaking out of the movement toward reform. It is vital to our future as a nation that we beef up the curriculum from the first grade through the senior year of college.

I also wince at the recurring stories of inexcusable behavior at high levels of business. Something is wrong, grossly wrong, when a great bank, a great brokerage house, two of our greatest defense contractors, plead guilty to criminal offenses. These are institutions that should set an example. What an example they have set!

I could mention the high costs of health care, the down-the-road troubles of Social Security, the insoluble problem of concealable handguns, the abuse of drugs, the toxic perils of chemicals that do so very much good—and carry the potential for so very much harm. All these are concerns. They add up to bad news, and as every newspaperman learns in his cradle, bad news makes more news than good news.

Yet if we will but look about us, we will see offsetting good news everywhere. Do we Americans ever sufficiently count our blessings? Ours is still a free society. We are free to speak, to write, to practice our religion. We live under a rule of law that dates to Magna Carta. Our Constitution is approaching its 200th birthday. We have a common language that unites the 235 million of us. We benefit from an economic system that still is based essentially upon principles of the marketplace and the idea of free enterprise. We have an immensely productive land; we have an energetic labor force; we have a sense of national security, and we are at peace with our neighbors around the world.

So much for my small valedictory. I have been writing for NATION'S BUSINESS for the past 12 years, and I have enjoyed the assignment and found pleasure in letters from readers. It has been a happy relationship, but at 65 I intend to shed professional responsibilities one by one until at 70 I may be able to do the reading and thinking and writing that an overcrowded schedule now prevents. Come winter, a man should be able to sit by a kitchen fire and, if he pleases, do nothing more than watch a covey of quail go skittering by. ■

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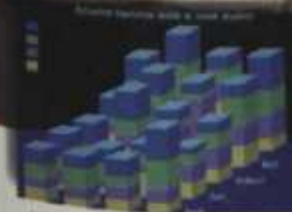
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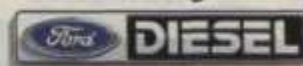


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COMMENTARY

Letters

The Liability Mess

Re: "Liability: Trying Times" [February].

As a person who is daily involved with this problem, I wholeheartedly support the proposed reforms.

I suggest that we adopt a system under which the person who loses a liability suit is required to pay all legal expenses and must post a bond to guarantee same at the time the suit is filed. This would curtail out-of-court settlements, reduce the "shotgun approach" used in most cases and, in my opinion, reduce the number of court cases by 75 percent.

Charles B. Farrow

Board Chairman

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Electric Engineers

San Francisco

Taxing Debate

You recently sought readers' views on a value added tax.

A value added tax might not be very troublesome to a retailer who buys a package at a certain price, adds his overhead and profit and resells the same package without any changes. However, a manufacturer who buys many components and uses them in fabricating a number of different items that are sold in various quantities at various discounts would have a king-size headache.

The paper work would be tremendous.

Since the VAT amounts to a national sales tax, why not impose it as a sales tax at the retailing point?

J.L. Schmid

Hagerstown, Md.

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T. Michael Keza, chief photographer

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Fighting Words

It is not surprising to learn that James J. Kilpatrick [January] has little appreciation of poetry and none for the works that do not rhyme. How, indeed, can poets possibly hope to enhance the quality of life as much as a marvelous new high tech missile carrier with its awesome potential for cost-effective destruction?

We can surely agree with Kilpatrick's dismissal of the 1,429 "soup line poets." After all, are there no work-houses? With high tech "things" doing more and more of the work formerly the province of human craftsmen, perhaps those who cannot get in step, like poets, should just die and decrease the surplus population.

Ray B. Orford

Poet

Moline, Ill.

It is appalling to see Americans upholding the expenditure of money to inspire uninspired poets. I wholeheartedly support Kilpatrick's comments on this very foolish spending. After reading his article, I sent copies to each of the congressmen here in North Carolina and asked them what their stand was on the bill authorizing \$140 million for the National Endowment for the Arts. It is pleasing to note that in the responses received, only one congressman from this state voted for the bill.

Thanks to Kilpatrick for keeping us informed.

C.L. Doggett

Hickory, N.C.

Question Confusion

Question 1 in January's Where I Stand is phrased one way in bold type ("Reject Tax Plan That Hurts Growth?") and another way at the end of the paragraph ("Should Congress enact this tax plan?"). I am for the tax reform plan.

Griffith E. Harlow

Winston-Salem, N.C.

Editor's Note: We regret the confusion. Most of our readers answered the question in the text, as we intended. But, as a result of the two wordings, an unusual number of readers checked the "unsure" box on the reader service card (see the results of January's poll on page 72).



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Business Outlook

Personal Savings Impact

Most economists are worried that if individuals do not save more in 1986 than they did last year, insufficient investment capital will cause business productivity to decline.

Such a decline could lead to a lower standard of living.

In 1985, individuals saved just 4.6 percent of their after-tax income, the lowest personal savings rate in 37 years. The rate was 3.9 percent in 1949.

The savings rate has been trending downward lately, despite the growing popularity of such incentives as individual retirement accounts, Keogh plans for the self-employed and section 401(k) salary reduction plans.

Dick Frederick, an economist at United States International University in San Diego, says a chronic low savings rate may eventually lead to higher costs for capital.

Frederick says that could further erode the ability of U.S. manufacturers to compete against products from high-saving nations. In Japan, nearly 20 percent of after-tax income is saved, and the cost of capital is half that of the United States.

Though other sources of savings—business depreciation and foreign investment—have been at relatively high levels, the overall U.S. savings rate is below that of most industrial nations.

Frederick offers one explanation why personal savings are so low: The baby-boom consumers now entering their middle years grew up in a generally prosperous era and do not anticipate rainy days. He says they do not have strongly positive attitudes toward saving and have become used to being in debt.

Edgar Fiedler, chief economist of the Conference Board, a New York-based business research organization, blames that situation on a tax code that provides deductions on interest payments for debt.

Fiedler says tax reform proposals should include more incentives for personal savings and a reduction in existing subsidies that spur consumption.

Despite tax incentives like IRAs and Keogh accounts, the personal savings rate hit a 37-year low in 1985.



PHOTO: IRA WEILER—EQUIP

Gramm-Rudman: First Trims

Beryl Sprinkel, chairman of the President's Council of Economic Advisers, says that cuts in government spending this year will be a shot in the arm to the economy. The first round of cuts required by the Gramm-Rudman-Hollings deficit elimination plan take effect March 1, when spending for the current fiscal year (which ends September 30) will be reduced \$11.7 billion.

"A modest cutback in government spending will have a very beneficial effect on the economy," Sprinkel says in response to some economists' concerns that federal spending cuts may mean a slowdown in overall economic activity.

Sprinkel says he remains "realistically optimistic" that the economy will grow 4 percent between the last three months of 1985 and the same period this year. The economy grew just 2.3 percent in 1985.

Unitary Tax Battle

A "dramatic increase" in Japanese investment could follow an American ban on unitary taxes, says Akio Morita, the influential chairman of the international investment committee of Keidanren, Japan's largest and most important economic organization. He says that investment growth will occur if Congress passes legislation barring states from taxing the overseas income and dividends of foreign-based companies. Such a tax is known as a worldwide unitary apportionment tax. A higher level of Japanese investment could create more jobs in the United States and would help to reduce the massive imbalance in U.S.-Japan accounts.

Morita is also chairman and chief executive of Sony Corporation, a consumer electronics manufacturer that has major assembly facilities in the United States.

Sen. Pete Wilson (R-Calif.) intro-

duced legislation last December to prohibit states from levying unitary taxes. He acted at the Reagan administration's request after the California legislature failed to eliminate that state's tax on multinational corporations' overseas income. The bill to eliminate the tax was reintroduced last month in Sacramento, but its passage is uncertain.

Meanwhile, U.S. companies operating in Britain are breathing easier since the United Kingdom temporarily put aside an earlier threat to retaliate against them because of unitary taxes levied by some states on British companies. The threatened loss of tax credits could have cost U.S. firms as much as \$700 million annually, according to a British Embassy spokesman in Washington.

Britain argues that the unitary tax, used in California and five other states, is a serious breach of established international tax practices.

The need for a higher personal savings level; views on the direction of the inflation rate; unitary taxes attacked.

Pressure On The Inflation Rate

Consumer prices may be rising at a 6 percent annual rate by December, warns Allan H. Meltzer, a leading critic of Federal Reserve Board policies. He says inflation may be going up because the Federal Reserve "has stoked the economy with more money than is desirable to keep inflation where it is." Last year such prices rose 3.8 percent.

Others, such as Ben E. Laden, chief economist of Baltimore's T. Rowe Price & Company, an investment advisory firm, say it is too early to worry about higher inflation. Laden points to the disinflationary forces at work: falling oil prices, falling or stable prices for many minerals and some agricultural commodities and ample, unused manufacturing capacity.

For Meltzer, an economist at Pittsburgh's Carnegie-Mellon University, those factors just hide the extent of the threat. He says they may help check inflation in the short term, but their downward push on prices will eventually wear thin.

Meltzer says that if it were not for those factors, the inflation rate would be 6 or 7 percent.

There was an 11.7 percent increase last year in what economists refer to as M1—the total of money in circulation, traveler's checks and funds in checking and other types of transaction accounts. It was the biggest annual increase in decades. Through the years, Meltzer says, there has been a close link between M1 growth and subsequent changes in economic growth rates and consumer prices. Such changes typically occur with a 9- to 18-month lag.

But Laden and other economists place less emphasis on M1 as an indicator of future economic activity. They say M1 is a poor guide because it includes money being saved, not just funds about to be spent, as was true before regulatory changes in 1982 allowed banks to pay interest on certain types of checking accounts.

Additional factors contributing to the outlook for worsening inflation,

Meltzer says, are Treasury Secretary James A. Baker's low-dollar, low-interest rate policies. The economist says they could import inflation by pushing up prices for foreign products and, in turn, put pressure on prices for domestic products. Artificially low interest rates could stimulate the economy too much, Meltzer argues, resulting in a tighter labor market, one that would result in higher wage demands.

Other economists downplay the chances of that happening. Edward Yardeni, Prudential-Bache Securities chief economist, says those who forecast escalating wage demands "are

wearing blinders. All they can see is the U.S. labor market. If they looked at the global labor market, they'd see a glut of workers."

As for the possible inflationary effect of a cheaper dollar, Yardeni says, "deflationary global competitive pressures will offset the inflationary pressures caused by a lower dollar." He points out that the Japanese yen, compared with the dollar, rose 23 percent over 11 months ending in January. Honda, Toyota and Nissan, however, raised U.S. prices an average of 3 percent last year. That was less than the rate of inflation.

The Good News In Falling Oil Prices

Falling oil prices may produce widespread economic benefits. If oil prices drop below \$20 a barrel, according to some estimates, the U.S. economy would grow a percentage point faster than it otherwise would have. Lower interest rates may also be in the offing.

Felix Rohatyn, a partner at Lazard Freres & Company, a New York-based investment bank, warns, however, that sharply lower energy prices could create serious problems for some oil companies that have large amounts of debt and for banks having a big portfolio of energy-related loans to corporations and other nations.

Rohatyn says takeovers or the threat of unfriendly raids have caused some large oil companies to restructure their balance sheets.

In some cases they are saddled with so much debt that "a large part of the oil industry has been badly damaged as a result," he says. Some companies, Rohatyn says, "could be in serious difficulty, in the near term, if the price of oil continues to decline."

Not all economists agree with that analysis. David M. Jones, senior vice

Some producers and their banks may be hit hard by cheaper oil, but the benefits will be widespread.



PHOTO: LEO JONES—UNPHOTO

president and economist at Aubrey G. Lanston & Company, a New York City investment firm, says the financial risks those companies and banks could face would probably be offset by faster economic growth and the possibility of lower interest rates.

"While there are winners and losers from falling oil prices, on balance, the energy sector comes out ahead," Jones says.

Washington Roundup

Affirmative Action At The Crossroads

The Reagan administration may decide soon what stance the government should take on employment opportunities for minority workers.

A divided business community is waiting anxiously for Attorney General Edwin Meese III and Labor Secretary William E. Brock to reconcile differing views on minority-employment requirements imposed on federal contractors.

Meese, Brock and President Reagan are expected to decide soon whether to proceed with a move begun last fall to change the 20-year-old executive order that requires firms doing business with the government to take "affirmative action" to hire blacks, women and others named in the Civil Rights Act of 1965. Advocates of change want to shift to a voluntary system.

Meese, the U.S. Chamber of Commerce and 54 other organizations in the so-called "Color-Blind Coalition Against Quotas" want Reagan to revise President Johnson's Executive Order 11246, which they say has evolved into rigid numerical requirements for hiring members of protected groups.

Brock, the National Association of Manufacturers and some larger companies say that a voluntary approach would end progress toward employment opportunities for members of the affected groups. "With voluntary goals, a lot of companies will say, 'Hey, I volunteer not to do it,'" says B. Lawrence Branch, a pharmaceutical company executive in Rahway, N.J.

Meese's business backers favor a fully integrated work force but oppose the heavy federal red tape in the present system.

Jim Supica, Jr., a construction contractor in Lenexa, Kans., whose minority-hiring program has been audited, says the government unfairly accused him of discrimination in August, 1985, for failure to employ as truckdrivers at least 12.7 percent minority-group members and 6.9 percent women. Supica employs only two truckdrivers, both white men, who, he points out, could sue him for reverse discrimination if they were replaced with a minority-group member and a woman. "I think it is easy to see how absurd a situation you can get into," says Supica.



PHOTO: ROBERT SHAFER—FOLIO

Setback For Trading Companies

Government attorneys are trying to decide how to react to a federal district court ruling that could have a chilling effect on exporting by American firms.

In 1982, at the request of the business community, Congress sought to improve the trade balance by allowing formation of "export trading companies." Groups of U.S. companies—even domestic competitors—could join to sell their products and services in foreign countries. Partners in trading companies approved by the Justice and Commerce departments are immune from U.S. antitrust suits, even though they decide with others who should get what business and at what prices.

But in the first judicial review of this statute, Judge Marvin Katz ruled January 3 in Philadelphia that Justice and Commerce did not consider carefully enough Chlor/Alkali Producers International's proposal to sell chlorine and

caustic soda abroad. In *Horizons International v. Baldrige*, Katz ruled that in view of the "rather checkered past of antitrust violations in the chlor-alkali industry," the departments should take a closer look at how this trading company might hurt competitors of the participating firms—B.F. Goodrich, Kaiser Aluminum & Chemical, Occidental Chemical and Vulcan Metals.

Pending this reinvestigation, Katz added, the trading company must be disbanded.

The Reagan administration is debating whether to ask Katz to reconsider his ruling, appeal to a higher court or proceed with the reinvestigation and recertify the trading company.

Businesses currently deciding whether to take advantage of the Export Company Act are trying to determine whether Katz's ruling will become dangerous precedent.

Differing views on affirmative action; Ecuador puts its economic house in order; trading company hitch; unions strike out.

The Free Market In Ecuador

During a recent visit to Washington, President Leon Febres Cordero of Ecuador expressed serious concern about protectionist trends in sectors of the U.S. economy faced with strong competition from abroad.

He said in a talk at the National Press Club:

"Producers from industrial countries should understand that it is much more desirable to live close to a Latin America that is progressing than a Latin America that feels frustrated." Those producers should also understand, he added, that "today's profits are not worth a Latin world that is in danger of explosion."

Febres Cordero referred specifically to congressional initiatives "to put up barriers to our goods and services." His views received particular weight in Washington because of the strong economic gains in Ecuador under his leadership.

An entrepreneur-turned-politician, Febres Cordero has pressed the free-market principles the Reagan administration views as the solution to economic problems that nations throughout the world are facing.

When Febres Cordero was elected in 1984, payments on his country's external debt were \$400 million in arrears, the deficit was soaring, unemployment was more than 17 percent, and inflation was more than twice that high.

The new President dispatched a team of economists to renegotiate the debt with creditors in the United States and Europe and launched an austerity program at home.

Ecuador's debt payments are now in order, and it has nearly \$200 million in foreign currency reserves, a balanced budget and a trade surplus. The inflation rate is down to 12 percent, and unemployment is at 10 percent.

Febres Cordero's basic explanation of his approach to his country's problems was guaranteed to find favor with the Reagan administration: "I realized that the government could not spend more than it takes in."

Entrepreneur-turned-politician Leon Febres Cordero is restoring Ecuador to economic health by adhering to free-market principles.



PHOTO: T. MICHAEL REZA

Labor Loses A Big One

It is still too early in the congressional session to determine whether union lobbyists will seek to advance legislative initiatives this year, but many Washington insiders are betting that organized labor will be keeping a low profile on Capitol Hill until after the November 4 elections.

Why? Representatives and senators handled labor much more roughly last year than they had in nearly a decade.

On November 21, for example, the House killed, by five votes, the plant-closing bill that was at the top of labor's 1985 legislative agenda. This Labor-Management Notification and Consultation Act, fiercely opposed by business organizations, would have required employers to give at least 90 days' notice of layoffs of 50 or more employees. It also would have required firms to open their financial and other records to unions.

Capitol Update

Who's Who?

"Any system of public welfare that... encourages dependence on government subsidy from generation to generation is not compassionate but callous."

Who said that? President Reagan? A Republican senator or representative?

The speaker is Mario Cuomo, governor of New York, who is a liberal Democrat.

In his 1986 "State of the State" address, Cuomo espoused welfare reforms such as "workfare," tax cuts for individuals and businesses and urban enterprise zones—favorite concepts of conservative Republicans.

If Cuomo's speech is any indication, these themes, which helped Republicans immeasurably at the polls two years ago, will appear in significant numbers on platforms of Democrats facing re-election November 4.

Accounting Problems Abound

Faulty accounting practices of federal agencies waste billions of tax dollars annually, according to a new General Accounting Office report. The GAO is Congress' fiscal watchdog.

"Serious internal control problems continue in a wide range of areas such as weapons-systems procurement, Social Security, debt collection, property management and automated data processing," the GAO said.

The worst offenders, according to the report, are the weapons-procurement arm of the Defense Department and the Social Security Administration, which administered \$174 billion in benefits payments in 1985.

Rostenkowski Vs. Wright

There could be a real race to succeed retiring House Speaker Thomas P. "Tip" O'Neill, Jr. (D-Mass.). Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) reportedly will challenge Majority Leader Jim Wright (D-Tex.). Wright claims more than 200 pledges of votes, but "Rosty's" work on tax reform last year gained him much stature.

Small Business Report

A Flag For Community Service

Joe, Charles, Frank, Tom and Jim Genuardi, of Genuardi Super Markets, Norristown, Pa., hold a "C" flag, one of 1,000 awarded last year.



PHOTO: THE TIMES HERALD, NORRISTOWN, PA.

The motto, "We Can, We Care," appears on the "C" flag, the banner that symbolizes business efforts to help find answers to local problems. The award, formally called the President's Citation Program for Private Sector Initiatives, is awarded by the White House under the sponsorship of nine nonprofit organizations, including the U.S. Chamber of Commerce.

"For years, small business has been active in the community, and this is one way to gain the recognition that should encourage still more companies to become involved," says Ann Ascher, president of Ann Ascher, Inc., a small interior design firm in Los Angeles, and member of the presidential advisory commission that oversees private sector initiatives for the White House.

She says companies that regularly donate money, materials or their employees' time to community activities may be eligible to fly the "C" flag. One thousand such banners were awarded in 1985, and officials say they expect to hand out about five times that number this year.

Since January, more than 80,000 ap-

plications have been sent to companies that may qualify for the right to fly the flag, says Eric Johnson, of the American Society of Association Executives, which administers the program for the White House.

"Interest in the program is soaring," he says. "People are seeing the 'C' flag and are calling to ask how their companies can qualify."

John J. Phelan, New York Stock Exchange president and chairman of the President's advisory board on private sector initiatives, says the flag program is aimed at more than just giving recognition to businesses' public service activities: "We hope to institutionalize giving back some of what we have taken out. As citizens we owe that to the community."

The "C" flag program is funded by private donations.

Tax-deductible contributions can be made to the PSI Gift Bequest Fund at the U.S. Department of Commerce, Washington, D.C. 20230. Applications for the "C" flag can be obtained by writing: ASAE, Post Office Box 27170, Washington, D.C. 20038.

Recognizing community service; easing the path to issuing securities; computerized capital; optimism on the economy.

Easier Rules For Securities

The U.S. Securities and Exchange Commission is looking at ways to make it easier for small business to raise investment capital. Its goal is to reduce the cost of, and paper work involved in, equity issues, by bringing greater uniformity to the jumble of federal, state and even international securities laws.

SEC officials and administrators of state securities laws will meet privately in Washington this month to discuss ways of getting states that have not endorsed the uniform offering exemption rules to do so.

Those rules apply at the state level to what are called "blue sky" laws. They regulate public stock offerings of up to \$5 million and private offerings to sophisticated investors having a substantial net worth.

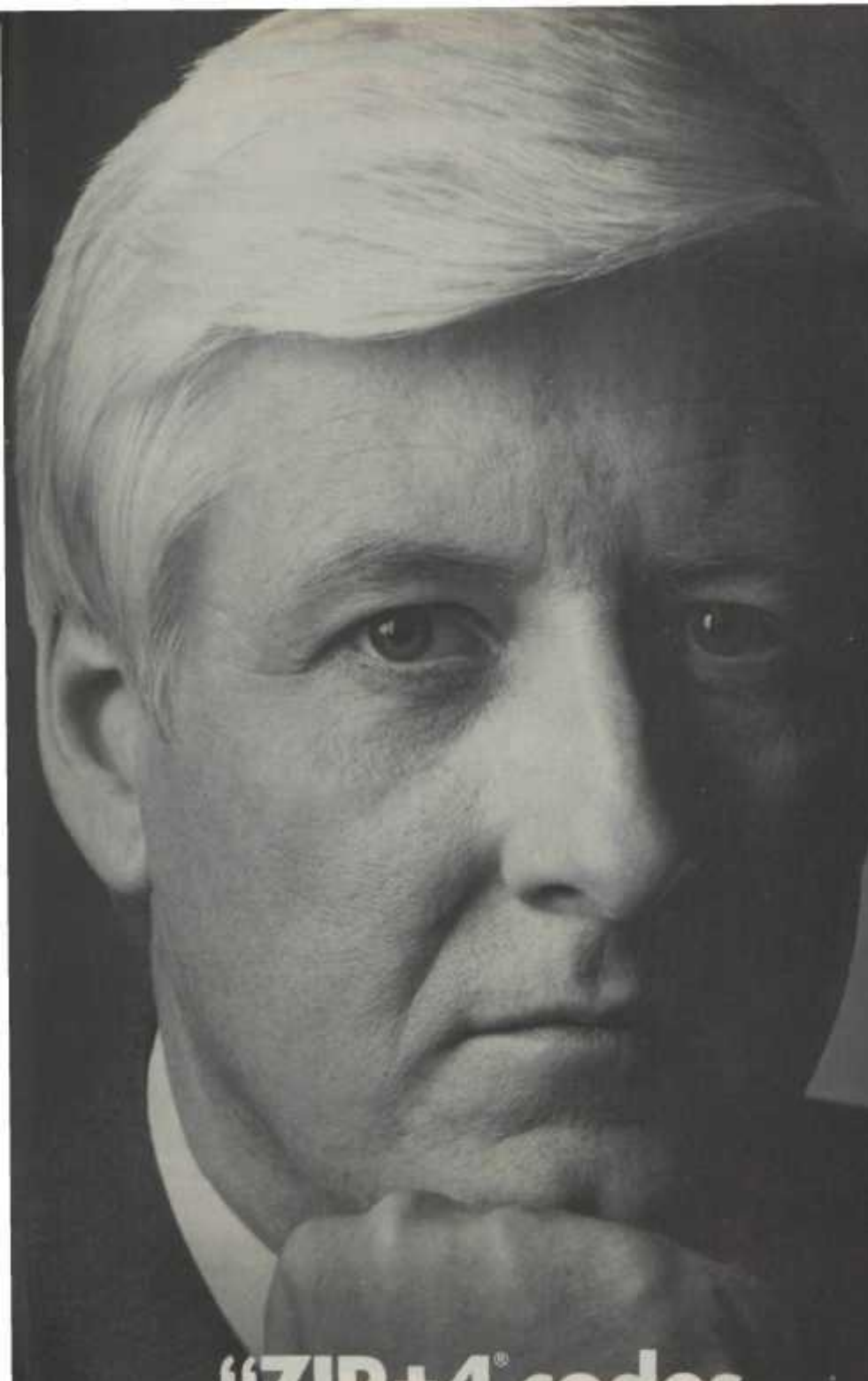
Such offerings, for the most part, do not have to be registered with the SEC. About half the states have either partially or completely adopted the uniform offering exemption rules since September, 1983.

Richard Wulff, an official in the SEC office of small business policy, says the conference will also examine other issues relating to the registration of professional investment managers, disclosure of information to investors, the regulation of markets, oversight and enforcement of securities laws.

Capital By Computer

A computerized information network, designed to make it easier for small business to raise capital, has been set up by Deloitte Haskins & Sells, an international accounting and business consulting firm. Deloitte experts in 18 cities have created a database to help companies in one region tap sources of capital in another.

David T. Thompson, the network's national director and a partner in the



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Small Business Report

Capital By Computer

firm's Los Angeles office, describes how the system works: "We start by studying the company's business plan to identify its financing requirements both for long- and short-term goals. This and other factors, such as the company's industry, geographic location and market niche, are analyzed to determine which particular investors might be interested in the investment opportunity."

Sources of capital might include leveraged buyout funds, pension plans, foreign and institutional investors, corporations, venture capitalists and investment bankers.

Optimism Stays High

Executives of small, rapidly growing businesses are bullish about the future, but not as optimistic as they were three years ago.

Ernst & Whinney, a Cleveland-based international accounting and consulting firm, polled more than 1,000 top managers of growth companies, and 72 percent say they are at least "somewhat optimistic" about the economy this year, compared with 87 percent in March, 1983.

Says Herbert S. Braun, the firm's national director of privately owned and emerging business services: "I view the continuing general optimism as a good sign that the entrepreneurial spirit is still very much alive."

Big differences were recorded in the issues managers rated as most threatening to their growth. Taxes topped that list, displacing inflation—the leading threat three years ago. Worries about government regulations and economic recession are higher today than they were in 1983. However, interest rates and the cost of capital are not as troublesome, according to the survey.

The future seems bright; 43 percent of the respondents say their companies' operating results will be "much improved" over the next five years, although only 21 percent are expecting "much improved conditions in the next 12 months."

Small Business Awards

Judges review several of the 350 posters entered in the 1986 Small Business Week national poster contest.



PHOTO: T. MICHAEL KEEZ

National Small Business Awards Week is scheduled for May 18-24.

The Small Business Person of the Year will be announced, and President Reagan will hand out 10 special awards at a White House ceremony in the Rose Garden.

Winner of the top honor will be selected from among the 50 winners of the state small business person of the year awards to be announced in early March.

Small business advocate awards will be given to those who have done most to increase understanding of the important contribution small business makes

to the economy. Advocate categories include accountant, financial services, media, minority, veteran and women in business.

There will be special awards for the small business exporter of the year, young entrepreneur and innovation awards.

In addition, a large company that has done the most to help a small business will receive a small business development award.

At the ceremony commemorating award winners, the designer of the 1986 Small Business Week poster will also be honored.

Women Entrepreneurs Conference

Women entrepreneurs in Washington and the five-state Mid-Atlantic region (Pennsylvania, Virginia, Maryland, Delaware and West Virginia) can get help in tapping the multibillion-dollar government procurement market at a conference designed for women April 17 at the Washington Convention Center.

Conference participants—men also are invited—will be able to meet with more than 200 federal, state and local

procurement officers and prime contractors.

James C. Sanders, chief of the U.S. Small Business Administration, a conference cosponsor, says women-owned business are underrepresented in their share of federal procurement contracts.

Information on the conference can be obtained by writing: Megamarketplace I, P.O. Box 28297, Central Station, Washington, D.C. 20005.



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COVER STORY

Go Out On Your Own?

By Harry Bacas and Nancy L. Craft

Stanley Pinder, who borrowed \$500 on this 1953 Kaiser to start his company, advises would-be entrepreneurs to draft a rudimentary business plan.

Anyone who can't do that doesn't have an idea worth pursuing, he says.



Investment adviser Kenneth J. Gerbino represents the popular concept of the successful American entrepreneur. Finding the corporate environment too confining, he started his own business, achieved success, and sees a future of continued expansion.

Entrepreneurship, he says, offers "freedom and challenges," along with the opportunity to retain "many more of the rewards of your efforts."

Stan Hazlewood, as president of a Dallas company that seeks buyers for smaller companies, has a different perspective. For the sellers of many of those businesses, he says, "the American dream has turned into a nightmare.

They no longer own their businesses, the businesses own them."

Those views reflect the range of answers offered to the question being raised by more and more Americans: Should I give in to the urge to start my own business?

Experienced business owners say that too many people, fired up by the prospect of "being my own boss," are saying "yes" to that question too quickly, acting without a clear understanding of entrepreneurship and what it takes to succeed.

A better approach, those veterans say, is to ask yourself, "Do I know what to expect?" and "Do I have the

complex combination of technical abilities and personal attributes needed to persist in the ownership of a business?"

In the article beginning on page 24, an expert with close ties to the world of entrepreneurship offers his advice on what those proposing to enter it should expect and how they should prepare themselves. The article beginning on page 26 offers a revealing quiz to help them determine if they have what it takes to succeed.

Another source of guidance, which this article provides, is based on the experiences of successful business people. Their appraisals of what motivated them and what it takes to succeed offer

Succeeding after you give in to the urge to start a new business is not easy. The advice of those who have done it can help you make a decision—and make it stick.

Fledgling entrepreneurs can expect to reach the crossroads that Joy Fisk, who sells potpourris by mail, has already arrived at: Administrative

demands of a growing business are pulling her away from the creative activity that she prefers.



would-be entrepreneurs standards for testing their own motivation and prospects for success.

Many individuals contemplating going it alone might recognize one of the factors that motivated Ken Gerbino to leave the confines of major corporations, where he had worked in finance and marketing after graduating from Ithaca College and receiving a master's degree in business administration from Syracuse University.

"I came to realize," he recalls, "that if you are working under anybody who is really good, you are always going to be behind him on the ladder. If he's not really good and you are, then you will be pushing him up the ladder."

He also observes: "If you have a lot of energy, and you are expending it for the benefit of an employer by putting in long hours and going the extra mile, you might think about doing it for yourself and earning 100 percent of the results. High-energy people who don't watch the clock and don't mind extra work are prime candidates for entrepreneurship."

He founded his investment-advisory company in a one-room, \$90-a-week office in Los Angeles, where his corporate employment had brought him. Gerbino, 40, began with two clients for whom he managed \$100,000. Today, he has eight employees and offices in Beverly Hills and manages a total of \$35 million for 175 clients. His goal, he says, is to expand the business by a factor of 10 and win a reputation for "the best track record on Wall Street" for investment advice.

His company reports an average return of 22.8 percent on accounts over \$100,000 in the seven years ending last July, compared with 15.9 percent for the Standard & Poor's 500.

When it comes to entrepreneurship, he advises entrepreneurial novices not to worry if they do not have all the start-up capital they would like. The important thing, he says, is to "invest time and not money." Going in with

COVER STORY

Go Out On Your Own?

Ken Gerbino advises those who plan businesses of their own to assess their ability to bounce back from serious mistakes, because they will be making

a good share of them in the course of launching a venture.

excessive capital "is the biggest mistake you can make. You need to gain experience early on, so you will be equipped to deal with problems that come with later growth. People who put more money than time into an enterprise go soft."

One necessary quality many entrepreneurs are not aware of, he adds, is an ability to bounce back rapidly from mistakes: "If you find you have made a mistake, change something—change your business, your product, your personnel, yourself if necessary. See if that changes the results." Individuals considering businesses of their own should test themselves on their willingness and ability to take those steps, Gerbino says.

As head of Great Western Business Exchange, Inc., Stan Hazlewood estimates that nearly 300,000 smaller to medium-sized businesses are for sale at any given time. The reasons can alert fledgling entrepreneurs to what can happen to new businesses launched amid excitement and high hopes.

Some owners wanting to sell, Hazlewood says, "are burnt out. They have lost their enthusiasm, and the business is starting to suffer."

Others find that the demands of growing businesses for the time and money of their owners can become overwhelming. "It costs more and more to keep it going," he says. "The excitement has been replaced by a burden."

Those situations spotlight a strong element in the advice that established business people offer to those contemplating entrepreneurship: They should be aware from the outset that, if they succeed, they will eventually have to choose between the creative activity on which the business was founded and increased administrative responsibilities.

Stanley Pinder, 47, founder and president of Custom Compactors Corporation, of Tampa, puts the situation in these terms for consideration in deciding on an entrepreneurial career:

"When you decide to start a business, you are sort of a one-man band. As you fill out your band, you are no longer a musician but an orchestrator and a band leader. If you're not equipped to be a band leader, if you really are a bass drummer, the next big decision you are going to have to make is whether you want someone else to lead the band while you play the bass drum."

With 50 employees and \$3 million in sales from the company he started with



PHOTO: CHARLES MOORE—BLACK STAR

\$500 borrowed on his 1953 Kaiser automobile, Pinder obviously chose the band leader role. He recommends that those starting a business today "spend some time with pencil and paper doing a rudimentary business plan. Analyze what specific need you are going to try to satisfy. Write your idea down. If you can't write it down, you don't have an idea."

Joy Fisk, 44, founder of My Favorite Things, which ships potpourris to thousands of customers from its base in Nampa, Idaho, says that knowing exactly what is ahead might not be the best thing for a person going into business. "One of the major things I have learned," she says, "is that you can't possibly wait until all the lights turn green before you start across town. You take them one at a time. If I had known all of the problems ahead, I would have been scared to death."

She advises: Be prepared for momentum. "You cannot hold still in a business," Fisk says. "It's not a static situation. You have to go with it and grow with it, or it will taper off."

Another suggestion she offers is "some really good soul-searching to realize that it's not hobby time and it's not hobby money when you're going into business for yourself. You have to go into it with some pretty strong goals and with a commitment to those goals. Then you have to pay the price—the time that it takes in learning the skills and putting some action into the dream. It takes a lot more capital than you think, and it takes a lot more time than you think it's going to."

Adrienne Zoble, senior partner of an advertising agency she founded in Bridgewater, N.J., did not have an opportunity to do any soul-searching in contemplating whether to become an entrepreneur. "I didn't have a choice," she says. "I had been let go." Zoble, 45, has a warning for employees of big corporations who plan to use their corporate experience as the basis for an enterprise. Asked if her work in large agencies prepared her to run her own business, she replied: "Not one iota. When you're in your own business, you take a risk. I don't deny that you can have a lot of responsibility on your shoulders in a big company, but when you're working for someone else, you get a paycheck whether or not you produce in a given week. In your own business, you worry about meeting the payroll for everyone else. You worry about clients paying on time. It's an entirely different scenario."

Individuals thinking about a business of their own, she says, often "do not understand the risks that you take, the strong stomach that you have to have and the rejection you might face. You've got to ask yourself if you are the type of person who can deal with that kind of stuff."

Another critical factor in entrepreneurial success, the veterans say, is the ability to get along well with the people you are counting on to help make your business grow.

Jerry Bartos, 53, who went into business in Dallas 21 years ago making high tech air purifiers, advises people

Jerry Bartos, who built a successful business making air purifiers, tells individuals planning to start their

own companies that they should first go to work for someone else and "learn as much as you can."

Adrienne Zoble advises entrepreneurs that experience gained in working for a large company is not transferable to managing a small business.



PHOTO: MARK PERLSTEIN-PICTURE GROUP



PHOTO: DAN WOODLUM

who are starting businesses to be ready to short-change themselves on salary if necessary to meet commitments to employees who are performing up to expectations. "You have to do what you promised these people you would do when you brought them in."

Though Adrienne Zoble says large companies are not the place to learn the heavy responsibilities of running your own business, some other entrepreneurs recommend working for another company to assess prospects for success in specific types of enterprises.

Tommie Cohen Tarsell of Towson, Md., founder and president of five service companies, says, "Go to work for someone you can learn from; get into as much of that company's operations as possible and see if you find something that you would like to do on your own. They are educating you in the business and paying you a salary at the same time. Once you feel you know the business and are comfortable with it, and you have the financial backing to operate for a couple of years, you are ready to move."

She urges would-be entrepreneurs to remember, however, that "a good cook does not a restaurant owner make."

Would a good cook with enough self-motivation make a good restaurant owner? Although many guides to entrepreneurial success stress self-motivation, Robert J. Rudolph says that is not enough, that aspiring entrepreneurs should ask themselves whether they have the ability to motivate others, as well.

The search to test his own skills in

motivating others led Rudolph, 36, to give up his job as a manager of circulation branch offices for the *New York Times* and buy a small company that handles calls to toll-free (800) numbers. CallCenter Services of Cresskill, N.J., now has 195 employees and \$4.5 million in annual sales.

Rudolph tells those considering entrepreneurship that they should test themselves for their skills in several roles. An entrepreneur, he says, has to be a planner, organizer and problem-solver and, above all, "be able to manage people well."

Though the experiences of established small-business people can help aspiring entrepreneurs gauge their own chances for success, there is a chance that the very qualifications and attributes necessary to succeed can lead to failure.

George L. Bernstein, chief executive officer of Laventhol & Horwath, a Big Eight accounting firm that has done extensive research into entrepreneurship, puts it this way:

"When we think of the entrepreneur, we think of someone whose enormous energies and personal pride are invested in the enterprise. This determination, this single-mindedness, are the keys to success."

"At the same time, they can be the seeds of failure—the great sense of personal ownership can lead to a sense of exclusion on the part of employees; and single-minded determination can lead to such an inward focus that external opportunities are lost."

For example, Bernstein says, the entrepreneur who complains of inability to find employees capable of assuming responsibilities often "doesn't want to give up much authority, anyway."

And, he says, entrepreneurs who relied on their own instincts and judgments in the start-up phase of a business often fail to recognize the critical point at which they need "to get a broader feel for the environment in general, to have objective sounding boards, to learn of resources, opportunities and risks that go beyond the hands-on experience of any one individual."

Another benchmark against which would-be entrepreneurs can measure themselves is offered by A. David Silver, chairman and cofounder of Pathfinder Computer Centers, Inc., of Woodland Hills, Calif., managing general partner of the Santa Fe Private Equity Funds and author of *Entrepreneurial Megabucks*.

He says that entrepreneurs bound for success have a special drive that puts them in a category apart:

"There's a courage that lifts them up. In their own minds, they say, 'Shoot at me. I'm going to win anyhow.' They go into a bank and say, 'Look, I can't pay you. What are you going to do with me? You can't take my children, you can't take the arms off my body. All you can do is sit down with me and work out a repayment schedule.'"

"Common people don't do that." ■

To order reprints of this article and the following two, see page 73.

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Accounts Receivable

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Taking The Leap

By Hy Shwiel

David Ogilvy recalls that, during the first 20 years of Ogilvy & Mather's existence, he would wake up every morning with a knot in his stomach and think to himself that this was the day when his business was going to blow away.

By its 20th year the advertising agency had offices in 10 countries and many cities in the United States. At that point, Ogilvy says, he began to convince himself that defection of a single client could no longer put him out of business.

Only then, he says, did the knot in his stomach begin to ease.

That story strikes a responsive chord in anyone who has made the giant leap into starting a business. Having your own business instead of working for someone else is certainly no guarantee that frustrations, insecurities and limitations will suddenly disappear.

Ogilvy's story should sound a warning to those who are thinking of going into business because they "want to do what I please on the job," or are "looking for self-fulfillment."

Those are very popular reasons for embarking on the road to entrepreneurship, but they are, unfortunately, the wrong ones. They are good reasons for finding another job, preferably one that rewards initiative and self-reliance.

Anyone thinking about embarking on a career as an entrepreneur should address two basic questions: Why am I taking this step, and how do I go about it in the most effective way?

The right motive for taking the step is profits. It is as simple as that. The prospect of making money is the ultimate justification for incurring the physical, mental, emotional and financial burdens of starting or acquiring a business.

As owner of a small business, you

Hy Shwiel is partner in charge of the emerging business practice in New York of Ernst & Whinney, the international accounting and consulting firm.



IN MAKING
THE DECISION TO
PAY THE COSTS
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YOU ARE DEMONSTRATING
THAT YOU HAVE THE
MOST ELEMENTARY
THING REQUIRED....
GUTS.



ILLUSTRATIONS: WILLIAM COULTER

will live with problems and stress for a long time. So, before going in, you should analyze the costs, determine the trade-offs and decide the price you want to pay in money and other considerations. Then you have to determine whether the rewards justify that investment. On that basis, it would be difficult to measure the return in any way other than profits.

In making the decision to pay the

costs involved, you are demonstrating that you have the most elementary thing required to start your own business—guts. It takes other things, too—skills, contacts and resources. But mostly it takes guts, not vague ambitions to "be my own boss" or pursue self-fulfillment.

Once you have shed fallacies about the reasons and qualifications for getting into business, you should also abandon some other myths surrounding entrepreneurship.

When someone tells me of plans to start a can't-fail business based on the better mousetrap theory, my reaction is usually, "Who needs it?" Mousetrap people often see themselves following in the steps of the founders of Apple Computer or other companies that exploded into giants after starting in somebody's garage or basement. The media have discovered entrepreneurship, and they are filled with rags-to-riches stories about people who launch a business one day and are millionaires the next. And lots of people reading those stories ask, "Why not me?"

But would-be entrepreneurs have to remember that, for every Apple Computer-type success, there are 1,000 failures. You don't read much about them.

You also don't hear about the entrepreneurs who do well enough to stay in business but feel they have reached a dead end. Disenchantment and failure do not make good you-can-do-it-too reading.

Rather than trying to convert what you think is a hot idea into an overnight hit, start with a mundane business and build from there. Instead of trying to find a better mousetrap to take to the market, look for a nuts-and-bolts business to buy and to learn from. Then you are not taking a 1,000 to 1 chance.

This approach enables you to get your feet wet, establish the business, build your business relationships and get your employees working as a team. Once profits are flowing, you can begin to think about expanding into more challenging areas.

Starting your own business takes guts and a desire to captain your own destiny. It also demands truthful answers to some uncomfortable questions.



THE PRACTICE
OF RETAINING
PEOPLE WHO CAN
NO LONGER HANDLE
THE JOBS THEY
WERE HIRED TO DO
IS EPIDEMIC IN
MOST GROWING
COMPANIES....



costs more than \$250 a month. Carelessness with seemingly insignificant variables can undercut credibility.

Break down expenses by month. Do not simply annualize them. If you have a million dollars in costs, don't assume that means \$80,000 a month. Some expenses will be paid monthly and some annually. If you have to make a lot of annual payments up front, you will be

running back to your financiers in the first month to explain why your cash flow projection doesn't make sense. It is not a good way to start.

Along with compiling your formal business plan, you should be thinking about finding people to work for you. It is amazing how difficult it is to find good people to work in small, even medium-sized businesses. But that challenge can be met.

First, don't hire cheaply. If you pay peanuts, you get monkeys. Then, recognize the weaknesses of the people you have hired. Shore them up where necessary. If you can't, replace them. Remember that, as your business grows from \$1 million gross to \$5 million to \$10 million, the people who worked for you at \$1 million may not be good for you at 10. The practice of retaining people who can no longer handle the jobs they were hired to do is epidemic in most growing companies. It would be far better to find them alternative positions and make them generous settlements.

On the other hand, do not forget the ones who struggled with you and successfully navigated your new company through its first rough seas. Competent loyalty should be recognized, made the best of and rewarded.

When it comes to people, a critical question to answer is whether you want to take on a partner. Working solo can be a lonely and difficult experience.

So if you find somebody who is compatible, and you both want to share the burdens and benefits of entrepreneurship, become partners. But put in writing everything you are going to do together and spell out who does what how often, the conditions for splitting up, and so forth.

The approach proposed here certainly does not apply to dreamers who see going into business on their own as making a quick killing. You must remember that managing a business is about managing risk effectively. It is not about taking a chance on a lottery. ■

You must start planning long before the grand opening. Begin by determining the type of business you want to get into, the one that suits you. You have to get close to it, work in that field or an allied one. Get to know people who work in the field as well as bankers, lawyers, accountants and others who provide services to it.

When you are ready to find a business of your own, the real planning begins. You have to talk to business brokers, venture capitalists, lawyers, accountants and investment bankers. And you have to do it full time. If you want to be dealt the good cards, you have to sit down at the table and play.

Then develop and write a formal plan to present to potential investors. Here are some points to keep in mind:

Consider your audience. If you are targeting your plan for a banker as part of a request for financing, he is not interested so much in your upside potential. Whatever profits you make will ultimately end up in his bank, anyway. He is looking at his risk, at collateral, at your ability to repay the loan. If you are writing for a venture capitalist, it is just the opposite. He is looking at profits and upside potential, and not so much at downside risks.

Include resumes of your managers. Your financial sources should know who is going to be working for you and whether they have had experience in the type of business you are establishing.

Provide details. If you have made certain assumptions in the body of your plan, tie them into the financial section. If you plan two factories, for example, your cash flow projection should show how you are going to pay for them.

Deal with both significant and insignificant variables. The venture capitalists analyzing your plan may not know whether it costs \$250 or \$250,000 to install a Part PC 61Y, but they sure know that a telephone system for 50 people

A Quiz For Would-Be Entrepreneurs

By S. Norman Feingold and Leonard G. Perlman

No reason is any more valid than any other for starting a business for yourself. Although life circumstances may play the major role in your decision to start a business, they play a minor role in determining whether you will be able to make a go of it. What will make the difference is the personal qualities you bring to the challenge of planning and operating a business. It is as simple as that.

Although talent, luck, a unique idea and good business advice are important, strength of character is the one factor all successful business people seem to have in common. Our research shows that, no matter what kinds of businesses these people pursue, they possess similar personal traits to a startling degree. As you might suspect, leadership was high on the list, but we learned that leadership by itself is not enough. People who start their own businesses have faced the following realizations, as you may have as well:

- I can't find a job I like.
- I want to be my own boss more than anything else.
- I want more money for necessities and luxuries than I can make at a fixed wage.
- I've helped someone else make money for years—now it's my turn.
- I want to avoid being laid off or fired or passed over for promotion because of office politics.
- No one will give me the chance to prove myself because of my background, so I'll have to do it on my own.
- I come from a family of small business owners—it's in my genes!
- My idea can't miss, and I want to put it together myself before someone else thinks of it.

You have the desire. Do you have the aptitude? Would-be entrepreneurs can determine, by considering the following questions and the reasoning behind

S. Norman Feingold is president of National Career and Counseling Services. Leonard G. Perlman is a counseling psychologist and coordinator for special seminars at the National Rehabilitation Association. This article is excerpted from their book, *Making It On Your Own* (Acropolis Books Ltd., Washington, D.C. 20009, \$20 pages, \$7.95).

Tommie Cohen Tarsell (see story beginning on page 18), founder and president of five companies, says entrepreneurs need more than just

creative ability: "A good cook does not a restaurant owner make."



PHOTO: MICHAEL KERR

them, whether they possess the traits necessary to success in their own businesses:

Are you a self-starter? Do you have the initiative to do more than you are asked to do? Are you resourceful—willing and able to seize opportunity when it appears and turn it to your advantage?

Do you have a positive, friendly interest in others? If so, it is a tremendous asset in most business ventures—especially in those where face-to-face contact with customers is a must. A successful business venture these days requires the ability to make and keep friends who are happy to be with you, buy from you, sell to you and bring others into your circle. Some of the most satisfying business arrangements have been made between two people who feel good about each other personally.

If you seem to end every discussion with a quarrel or go through life with a chip on your shoulder, you may have a tough time coping with customers you

depend on. Unless you hire others to do your selling or handle your public relations, you could face an uphill battle in making your business profitable.

Are you a leader? Do people listen to you? Do you inspire confidence and loyalty? Ability to lead is an important skill. Even if you have only a handful of employees, you will have to maintain discipline, check their work and productivity, train them to do the job the way you want it done and arbitrate if they disagree with each other. Even companies with full-time personnel officers sometimes find it difficult to hire the best people for a job; training and retaining people can be a time-consuming and costly process. A leader who can motivate and reward employees will get his or her business off to the best start.

Can you handle responsibility? Do you enjoy taking charge? Are you the one who volunteers for tasks or responsibilities at meetings, or would you rather sit quietly while others raise their hands? If you usually avoid responsibility when a situation calls for it,

Your reasons for starting an enterprise are not important, say these experts—the qualities you bring to it are.

starting a business could be a difficult chore. Being your own boss is one thing, but being responsible for the livelihood of others on your payroll and for the well-being of those people during their workday—as well as for customers' needs—may be too much for you to handle.

Are you a good organizer? Are you capable of recognizing and arranging items, ideas or concepts into logical and meaningful action? Do you usually make plans carefully before trying something? Are you on time? Do you remember to pay bills, file your tax forms, keep your appointments?

Running a business, whether you have one employee or 100, requires preplanning, purchase of merchandise, keeping financial records, documenting sales and marketing your product or service. To keep up with the thousands of details that are sure to be part of your business, you will have to start out with good organizational abilities, develop them or hire someone to assist you with them. They won't get done on their own.

Are you prepared to put in long hours? People often think that, when they work for themselves, they will be working less than they were before. But owners find themselves working harder and longer, particularly during their first few months in business, than they ever did as paid employees.

One of our interviewees says, "I work between 48 and 72 hours per week, but we spend hours discussing the business even when we are not there. We are not under a structured time schedule. If we want to take time off, we can. But we don't do it as much as we should."

As the owner, you have more to gain, of course, since it is your investment. But you also have more to lose if the business does not show a profit. Plan on eating, sleeping and breathing your new venture for the foreseeable future—and be pleasantly surprised if that turns out not to be necessary.

Do you make up your mind quickly? Or are you hesitant—even fearful—about a decision you must make? Are your decisions quick but accurate?

Robert J. Rudolph (see story beginning on page 18) left a big company for entrepreneurship so he could use his skills as a motivator.



The ability to sum up a situation quickly and make a realistic choice for action will stand you in good stead a thousand times during your business life.

Making decisions doesn't have to be an isolated activity—you can and should consult others. But the final decision will be yours to live with.

Can people rely on you? Can they trust what you say? If your word is your bond, you will find yourself reaping rewards. A good reputation brings in new business. But you may be someone whose good intentions outstrip his ability to follow through. Face that now.

Are you capable of running all day and all night? If so, you will be far ahead of the competition as you start your business life. Long hours can be hard on people who do not have the physical stamina needed to keep a shop open or finish that last order on time. If you have a physical disability, consider a business that allows you some flexibility on deadlines or performance, or

consider taking a partner who can handle some of the most exhausting activities, like deliveries.

Can you withstand reversals without quitting? If you discover the source of a problem with your business, and it appears to be something you can see through to the end, will you have the strength to do it? Can you analyze a problem and take steps to correct it, or will you panic and throw in the towel at the first opportunity?

Can you adapt to changing situations? An invaluable asset in business is the long-run ability to recognize and react to changes in your market, in your customers' preferences, perhaps in the neighborhood in which your business is situated.

If you have answered "yes" to most of these questions, you probably have what it takes to run a business. If most of your answers were negatives—absolute or even conditional—running a business of your own would probably be an uphill battle.

Rare is the person who has an abundance of all these traits or who does not need to improve one or more in order to be better in business. There are ways to strengthen them both before and after you begin your business.

Observe the actions and responses of others in trying business situations. If your plumber always gives service with a smile, take a minute to watch his or her behavior when faced with a complaint. Analyze how someone successful answers the phone, handles dinner reservations or keeps track of overdue accounts.

Attend conferences and lectures on aspects of your business. Experts on business management often have tips garnered through years of experience with other businesses like yours. Read books and articles to keep up with developments in your field.

Remember, the keys to success are initiative, positive attitudes toward others, leadership, organization, industriousness, adaptability and a sense of responsibility. The time to identify and evaluate your strengths and weaknesses is now, before you decide on whether owning a business is for you. ■



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Auto Marketing On A Roll

By Anita Pyzik Lienert and Paul Lienert

Detroit's sales wizards are marshaling everything from technology to New Wave video ads to sell to consumers.

Pizzazz," they used to call it. For years, U.S. automakers seemed convinced that a pretty face, a scenic backdrop and a snappy jingle made for effective advertising. The addition of some dazzling talk from a salesman on the showroom floor would close the sale.

But in an era of rising imports, a decline in owners' loyalty to one manufacturer and changing consumer tastes, the marketing wizards in Detroit and their counterparts on Madison Avenue are marshaling everything from Star Wars technology and New Wave video ads to shopping-mall sales offices.

Though the auto-row dealership and the test drive have yet to go the way of the Model T, domestic and foreign automakers alike are dramatically reshaping their marketing strategies as they vie for customers confronted by a vast array of new models and options.

Auto marketers have learned, through exhaustive research, that today's car buyers are generally wealthier, better educated and more sophisticated than those of the previous generation, and the selling tactics and promotional gimmicks that once lured prospects to the showrooms are no longer successful.

At least one executive thinks those techniques may be counterproductive. "Our research tells us that many consumers today dislike the whole selling process," says Edsel Ford II, marketing manager of Ford Motor Company's Lincoln-Mercury division; "especially coming into a showroom or dickering with a salesperson."

A groundswell of change over the past few years suggests the industry has already embarked on a new and innovative era of automotive marketing. Consider some of the nontraditional methods employed recently to woo prospective buyers.

Advertising/Promotion

On network TV, 30-second auto ads look more and more like rock videos. In Chrysler Corporation's commercial,

Anita Pyzik Lienert is a Detroit-area freelance writer and journalism instructor. Paul Lienert, her husband, is an automotive writer for the Detroit Free Press.

Automakers are seeking out new markets with "niche" vehicles aimed at specialized categories of customers. The Ford Merkur XR4Ti competes

with such popular European sports sedans as BMW and Audi. Most of the advertising for the Merkur is aimed at car enthusiasts.



PHOTO: SUSAN MUNIAR

"The Pride Is Back—Born in America," background music calculated to sound like Bruce Springsteen's "Born in the USA" accompanies a collage of babies, the Statue of Liberty and Lee Iacocca. Ads for the Chrysler Laser and LeBaron GTS feature rock singers Laura Branigan and Bonnie Tyler. The theme music for an ad for the Mercury Cougar is Mitch Ryder's 1960s hit, "Devil With The Blue Dress."

That type of ad has attracted industry-wide attention. Charles Riley, senior vice president in charge of Lincoln-Mercury advertising at the Young & Rubicam agency in Detroit, says they are "really mini-videos. Our target is baby boomers, and music is an important part of that culture."

Prospective Chevrolet buyers around the country who own Apple, IBM or Commodore personal computers are finding "Chevy Tech" diskettes in their mailboxes. The free software, which includes a video game, allows them to select options and compare prices on all '86 Chevy cars and trucks, and even calculate leasing and finance rates.

Thomas Staudt, Chevrolet's general

marketing manager, says, "Consumers have been enthusiastic about this unique method of providing them with information on our product line." He says the diskette is "the forerunner of many innovative marketing tools that will give computers and other high-tech advancements a more prominent role in the car-buying process." The program on the diskette opens with the music theme from the company's television commercials ("Live Today's Chevy...") and lists 1986 product lines, basic equipment and options for each model.

The diskette features a video game called Depreciation Derby, where the buyer races the clock to get 12 used cars to the dealer for trade-in.

In recent years, automakers and their dealers have aggressively marketed parts and service as another means of improving customer loyalty, a notable example being the General Motors "Mr. Goodwrench" campaign.

In one takeoff of Mr. Goodwrench, Toyota dealers in Buffalo have sponsored "Captain Toyota," a licensed mechanic who is dispatched (in a Toyota van) to area freeways during morning

Auto Marketing On A Roll

MANAGING YOUR BUSINESS

John A. Cook, Porsche president in North America, is happy with the niche that Porsche has found among American auto buyers and markets

its cars accordingly. That means, he says, building a better mousetrap and keeping it that way.

and evening rush hours to assist any stranded motorists.

Selling By Computer

Both Ford and Buick are experimenting at their dealerships with outside computer terminals that function much like the automated teller machines that provide 24-hour service to bank customers. If the dealership is closed or the sales staff is busy, the customers simply punch their names, addresses and phone numbers into the terminal, along with the name of the vehicle in which they are interested. The computer screen displays technical features, options and prices, and takes a record of customer preferences for a follow-up contact.

Robert Starr, Chevrolet's general manager for sales and service, says his GM division is placing computer terminals with product information at auto shows around the country. As costs of such units decrease, it may be putting them in airports and office complexes. In Japan, some manufacturers have put video displays attended by hostesses in supermarkets and shopping centers.

Auto Shopping Centers

The automobile shopping center is emerging rapidly as a focal point for auto buyers in many areas. Such centers bring under one roof many competing dealers. They are replacing, in many areas, the auto dealers' row, where dealerships were spread over several miles of a major highway.

In Houston, the city's first automobile shopping center is under construction, with six to eight competing dealerships planned under one roof. "Houston, like Los Angeles, is a spread-out city," says developer Charles Kenner. "Putting several auto dealerships in one location provides a great service to the consumer and can save him enormous amounts of time driving from one to another."

Another factor influencing the building of auto shopping centers is the cost of land in many growth areas. Newly established dealerships are unable or unwilling to pay the high costs of buying several acres for a traditional operation, while established dealers are finding they can sell property in choice locations for many times what they paid for it years ago.

Tie-In To The Fitness Boom

In a soft-sell approach designed to appeal to upscale, fitness-minded baby boomers, Mercedes-Benz of North



PHOTO: RANDA BISHOP

America is backing the Boston Marathon this year and will award 190E sedans to both male and female winners. Aiming for the same sort of customer, Volvo of America has been backing professional tennis tournaments for the 12th year.

Other European manufacturers have sponsored different amateur and professional athletic events. Saab and BMW this year are hosting skiing com-

petitions, while Yugo of America—the importer for the Yugoslavian-built Yugo GV—has come up with a unique twist: It will sponsor the U.S. men's and women's Olympic volleyball teams.

Satellite Locations

Chevrolet dealerships in Moline, Ill., Appleton, Wis., and Evansville, Ind., have opened satellite locations in local shopping malls, where high-pressure

John Bergstrom (right), owns a Chevrolet-Cadillac satellite dealership in a mall in Wisconsin. Salespeople are replaced by computer

terminals providing information on options, prices, financing and leasing.

salespeople are replaced by computer terminals providing information on options, prices, financing and leasing. The locations will have cars for customers to look at and a few people to help them operate the terminals.

John Bergstrom, owner of Stromberg Chevrolet-Cadillac in Appleton, says: "This type of mall store is going to become one of the major ways of merchandising automobiles in our country." Robert Starr, Chevrolet's general manager for sales and service, says the satellite showrooms are designed to attract under-35 buyers who want "a hassle-free shopping experience. They don't want to deal with a salesperson. They just want to look. That's why they go to the mall. And, while they are there, we'd like them to look at our products."

Marketing To Women

Car buyers today are younger, better-educated and, increasingly, female. An unprecedented number of women are in the work force, and the proportion of the overall population with some college education has more than doubled since 1960.

Marketing strategies aimed at women are increasing as a result of industry analyses showing that women may soon account for half of all the new-car purchases in this country. In November, Chrysler will offer preapproved credit to more than 500,000 women through its financial arm. As part of its 1986 marketing strategy, Chevrolet is forming a women's marketing committee to increase sales.

The latter company's decision to put satellite showrooms in shopping malls is aimed in particular at potential women customers.

Those and other new approaches under way or planned show why J.D. Power & Associates, an automotive market research firm, states that the industry "is changing dramatically." The *Power Report* says manufacturers are "redefining the way cars [are] built and marketed."

Through the end of the decade, the newsletter predicts, "the new-car market will experience a new era of competition unlike anything recently seen in the auto industry.... More consumers likely will be in the prime new-vehicle buying age group, and their rising affluence will enable them to buy what they want. The manufacturers can meet this demand by implementing solid marketing strategies, accelerating



new-product programs and increasing advertising."

Industry observers expect that print, broadcast and outdoor advertising by the auto industry will be near \$2.5 billion this year, a record that spotlights the increasing competition for sales.

With a proliferation of new products in the market, automakers are supplementing their higher-volume car lines with "niche" vehicles aimed at specialized categories of customers—the two-passenger Pontiac Fiero and Toyota MR2, for example, are geared toward young singles with moderate incomes. Another niche car is the Ford Merkur XR4Ti, which competes with such popular European sport sedans as BMW and Audi. Most of the advertising for the Merkur is aimed at car enthusiasts who read such publications as *Road & Track* and *Car and Driver*.

A company that remains perfectly willing to fill a small niche in the auto market is Porsche Cars North America, Inc. John A. Cook, president and chief executive officer, says, "We're not nearly as aggressive in marketing to the broad American public as some people who are into the high volume cars.... It doesn't matter if it's an 11-million-car [annual] market, we're going to sell 30,000 cars."

"My view," he says, "is that automotive marketing is not something that starts with special wrinkles on how I reach my customer: Do I send them videocassettes? Do I have special training for my salesmen, and do they wear a red jacket or a blue jacket? It starts with the fundamentals, which are es-

entially building a better mousetrap and seeing that it continues to be that way."

Whatever the approach, it is clear that the industry has moved far past the era when companies could throw generic advertising messages at broad demographic targets and get results.

Sophisticated buyers are challenging the creativity of automotive advertisers. "It's more difficult to reach our audience, so we're not out to do a litany of product facts," says Young & Rubicam's Riley. "The commercial is best if it's entertaining."

While computer-designed graphics and other technological advances have enabled advertisers to produce commercials that appeal to modern tastes, technology has also created problems for advertisers. Remote controls for television sets enable viewers to "channel hop"—switch quickly from one channel to another to avoid commercials.

The explosive growth in sales of videocassette recorders means that millions of families are taping programs for later viewing, when they can "zap" commercials—fast-forward the parts of the tape containing commercial messages. The fragmentation of cable networks, which now command substantial audiences of their own, also offers an advertising challenge.

The technological developments are particularly significant because they involve much of the younger generation the auto manufacturers particularly want to reach. Riley says there is an

MANAGING YOUR BUSINESS

Auto Marketing On A Roll

New auto marketing strategies include commercials like Chrysler's "Born in America" campaign depicting various aspects of

American life (left). AMC emphasizes the flexibility of its Jeeps as both passenger and cargo vehicles.



PHOTO: PLYMOUTH



PHOTO: T. MICHAEL REZA

across-the-board interest among car-makers in appealing to baby boomers from 25 to 40, "whether they have products that appeal to that market or not."

A Detroit ad copywriter says it is easier to sell a baby boomer a car if the ad is "challenging" and the car "is set in an aggressive stance, such as making a sharp turn or even dropping from the sky," as in a recent Dodge ad.

By 1995, one-third of all households will earn \$50,000 or more. More than half will earn at least \$35,000, and this income level will be the fastest-growing segment during the next 10 years.

Unlike the traditional buyer, owners

today do not stay with the same brand or trade in their cars every two to three years, and they are much more deliberate in their buying habits.

John Schnapp, vice president with Temple, Barker & Sloane, management consultants in Lexington, Mass., calls them "new values" buyers.

"To these buyers, visual appeal is not as important as reliability and durability," says Schnapp. He says such buyers tend to be influenced by factual studies reported in consumer publications, by publicity over models recalled by the manufacturer for correction of defects and by listening to peers who

have had unfortunate experiences with their new cars.

Typical showroom selling tactics, which often come across as patronizing to female consumers, alienate younger, well-educated "new values" buyers.

Though industry observers are not predicting the impending demise of the traditional new-car showroom, the automakers are turning increasingly to direct selling of their products through computers and catalogs. The trade publication *Advertising Age* predicted recently that, by 1995, 15 percent of all cars will be sold directly to customers through catalogs or computers, or at least influenced by them.

Five or 10 years from now, many consumers will shop for new cars from their homes, via personal computers and such promotional materials as the Chevy Tech diskette.

The use of direct mail is an increasing factor in promotion campaigns of both domestic and foreign manufacturers. Chrysler sends out about 30 million pieces a year. Volvo recently established a direct marketing department to maintain contact with existing Volvo owners.

"The industry has proven that it's far more efficient to sell a car to someone you've already sold to than find a new customer," explains Volvo spokesman Robert Austin.

Whether it is direct mail, high tech computer software or a catchy video ad, it is clear that automotive marketing has progressed well beyond the "baseball, hot dogs, apple pie" era.

"You can't just sell the sizzle any more," says Chrysler's marketing boss Campana. "You've got to sell the steak." ■

Selling GM's Saturn

Much ink has been devoted to the advanced technology that will be used by General Motors to build its futuristic Saturn small car in the late 1980s. But GM's marketing strategy for Saturn may be even more high tech than the production methods.

Saturn planners envision a marketing and distribution system totally linked by computers, from the factory floor to the dealership—and perhaps to customers' living rooms. Here is how they predict it will work:

Prospective buyers, having seen ads for the Saturn subcompact on cable TV or on videocassettes sent by direct mail to their homes, will visit their local Saturn dealer at a storefront location.

They will be able to check out the two or three models on display, then preview the car's features on a video terminal in the store. From a computer

keyboard, they will be able to call up mechanical highlights and popular options, even calculate financing or leasing rates.

Customers can order their cars simply by pushing a button or two on the dealer's computer terminal. Eventually, they will be able to do the same from a remote terminal at home through a telephone link to the dealership.

Once the vehicle order is placed, the computer system will trigger a "build" order at the Saturn factory in Spring Hill, Tenn. Parts suppliers, who will also be tied into the network, will receive their orders simultaneously and deliver the parts to the factory while the car is on the assembly line.

In a matter of days, the Saturn buyer will take delivery of a car, cutting 6 to 14 weeks from the normal distribution cycle.

To order reprints of this article, see page 73.

Training The Work Force

By Andrew J. Sherman

Azie Taylor Morton, president and principal owner of Stami Corporation, operator of two Wendy's franchises in Philadelphia, has discovered that when she hires employees she must spend precious time teaching them the fundamentals of good work habits.

One man, now a star employee, started on the job with a marked lack of enthusiasm for doing what was entailed—he even refused to wear the required uniform. Morton says it took her a year to instill in him a productive work ethic.

Hers is not an unusual story among the nation's small enterprises. They "encounter these problems over and over," she says. "It is very costly. The time I spend training new employees is very burdensome."

Small businesses are the primary entry-level training ground of two thirds of America's work force. Leaders in the small business field say it cannot adequately meet this responsibility without more assistance from government and the academic community. They are calling for stronger federal programs and incentives, plus a more dedicated partnership with educators.

Thirty state conferences have been held so far in preparation for the White House Conference on Small Business in August, and delegates at all of them have pointed out that small businesses, unlike larger corporations, cannot afford extensive in-house training.

Demographic changes in the next 10 years will mean many fewer workers at the entry level and greater competition among employers for the fully trained. A Bureau of Labor Statistics report says: "Labor force trends reflect the movement of the baby boom generation from the ages of... entry to prime working ages." In 1984 there were 17.4 million workers aged 18-24; by 1995, that will decline to 14.2 million. The 25-54 age group, on the other hand, will balloon from 45 million to 55 million—75 percent of the work force.

Says Roberts T. Jones, deputy assistant secretary for the Labor Department's Employment and Training Ad-

Training new employees is an expensive burden carried by small business people like Ralph Murray (right), whose firm designs and

Small firms face the prospect of a much tougher job getting good new employees. Creative answers are being tried and urged.

manufactures advertising displays. His company formally trains its own staff, including estimator Al Hammerstrom (left).



PHOTO MARK SHUPERT

ministration: "Small businesses often serve as a training ground for employees who then go on to big businesses. All the time that goes into creating an expert is lost when he or she is hired away by a larger company."

Before they leave school for the work force, "students need to be made aware of the benefits of working and staying at a small business," adds Ralph Murray, president of IDL, Inc., a Pittsburgh designer and manufacturer of advertising displays. Murray is also a member of a special White House task force on education and training.

As it currently stands, the outlook for the small business labor force is grim. Small business owners attending the state conferences have cited not only changes in work force demographics, but also the technological revolution, increased international competition, alarming illiteracy rates and inadequate business education as factors that leave them wondering where they will find properly educated and trained employees in the years ahead.

Some programs are already helping. The Job Training Partnership Act,

which replaced the Comprehensive Employment and Training Act, provides job training and employment services for economically disadvantaged adults and youths and dislocated workers (those who have lost their jobs due to plant closings), among others.

State and local governments are primarily responsible for managing and administering job training programs under JTPA. Governors approve plans developed by local Private Industry Councils, which are composed of local education and training authorities and business leaders. JTPA has served more than 1.5 million disadvantaged and dislocated workers since October, 1983.

"JTPA has been particularly successful because it is run primarily by the local PICs," says Jones. "Over 11,000 business owners serve on these PICs nationwide. This helps to ensure that the training programs are responsive to the job skills needed locally."

A report of the Washington-based American Association for Adult and Continuing Education shows that busi-

Andrew J. Sherman is a third-year Washington law student with special knowledge of small business issues.

MANAGING YOUR BUSINESS

Training The Work Force

Teachers Robert Sanchez (bottom left) and Sandra Smith (top right, wearing sweater vest) teach basic work skills at an adult education center in a trailer

donated by a Florida seafood company, Treasure Isle.



PHOTO: ERIC MENDEL

nesses have contributed facilities, equipment, money, counseling, staff and input on curriculum development to joint education and training programs. But, the report concludes, "we are only scratching the surface."

These joint efforts "raise new challenges and issues for the public education system," says Kent McGuire, a senior policy analyst with the Education Commission of the States, headquartered in Denver. "Schools have to be in the business of training, teaching good work habits and giving students some sense of what makes the business world tick."

Adds McGuire: "Small business needs to collaborate with schools at a much earlier stage in the education process. By the time a kid reaches 12th grade, his work habits may have already solidified."

One such partnership has been successfully established between Treasure Isle, Inc., and the Hillsborough County, Fla., adult education program. Treasure Isle is a 500-employee seafood company that wanted to demonstrate its interest in training people for better jobs. The company donated a large double-wide trailer for a training center on company grounds, stocked it with reading equipment and typewriters and opened it to all adults in the community.

Because the area has a high Hispanic population, much of the job training focuses on English language skills, including reading and writing.

"We are like a little red schoolhouse," says Sandra Smith, an instructor at the center. "People come from 30-mile distances to attend."

Hamilton Bowser thinks the problem is not shortage of programs, but rather, quality of instruction. Bowser is president of the 38-employee Evanbow Construction Company, of East Orange, N.J., and, like Murray, is a member of the White House Conference on Small Business task force on education and training. "It's surprising how few of today's business management professors have any practical business experience," says Bowser. "Perhaps a co-op program should be required for business teachers to ensure that they keep their fingers on the day-to-day aspects of operating a business."

Small business conferees have recommended that federal legislation to partially subsidize the cost of on-the-job training be enacted in the form of tax credits, rebates of employers' Social Se-

curity payments or authority to pay subminimum wages. Most small businesses "simply do not have the resources" to provide such training, says Bowser.

But Louis Faoro, associate administrator for business development in the Small Business Administration, thinks private business must take the lead role. "SBA is pushing cosponsorship of

training programs through its network of small business development centers," he says. "SBA should be a catalyst, then the small business community should take it from there."

Says Hamilton Bowser: "The programs are out there, it is just that not enough small business owners and employees are taking advantage of them. You can't legislate participation." ■

Where To Learn More

For information about training support for small business, contact the following organizations:

The Education Commission of the States
Business Advisory Commission
1860 Lincoln Street
Suite 300
Denver, Colo. 80295
(303) 830-3600

Business Council for Effective Literacy
1221 Avenue of the Americas
New York, N.Y. 10020
(212) 512-2477

U.S. Department of Labor
Employment and Training
Administration
601 D Street, N.W.
Washington, D.C. 20213

American Association for Adult and Continuing Education
1201 16th Street, N.W.
Suite 301
Washington, D.C. 20036
(202) 822-7866

American Vocational Association
2020 N. 14th Street
Arlington, Va. 22201

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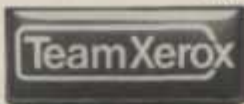
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Franchising

By Ripley Hotch

You move to a new house in a new city, and two days later the water stops flowing in your kitchen sink. Or a strange disease is attacking your hedge. What do you do?

If your neighbor happens to be a plumber or a gardener, you are in luck. You might also try to do it yourself, buying tools, insecticides or plumbing fixtures that you use once. Or you might try the Yellow Pages, calling at random a name you do not know.

More and more, however, homeowners are able to turn to franchises in a huge—and often unexpected—variety of home services. There are more than 60 franchise companies that will see to minor repairs, remodeling, room additions, lawn care, house cleaning (inside and out), child and pet sitting services, party catering (including parking guests' cars), decorating—just about any service anyone needs for the home. (Because cleaning services are growing so fast, they will be covered in a separate article, in May.)

Many of the franchisors are new, small companies. But these firms are convinced they are tapping a market that is bound to grow.

"We think there is a vast new number of services people are willing to purchase," says Bill Fisher, president of Spring-Green Lawn Care Corporation, Naperville, Ill., which is a fertilizing and pest control service. "This is basically a service-minded society."

It is also, he says, a society interested in convenience and using its leisure time "to do other things besides spread fertilizer." Spring-Green now has 107 franchises that can provide its services for very little more than the homeowner would pay to do it himself.

Service franchisors say that successful franchising in home services depends on a local reputation. Quality is essential, or the national operation will not survive.

"Since 30 to 40 percent of our business is by referral, we can't afford not to provide full disclosure and consultation to our customers," says Joe Garfinkel, vice president of B-Dry Systems, Inc., Akron, Ohio, which does basement waterproofing.

Andrew J. Sherman contributed to this article.

Franchises in home services are taking the place of the neighborhood handyman. Services as diverse as lawn care and home decorating have

attracted more than 60 franchisors—and they have just scratched the surface of a huge and growing market.



PHOTO: SPRING-GREEN LAWN CARE CORPORATION

"Anytime someone is selling a service for the home where the customer has no knowledge, the door is open for fraud," he says. "Some people prey on the homeowner's ignorance."

Franchisees therefore act to some extent as counselors, says Garfinkel. "They are trained to come into the home and fully analyze the leakage problem. They will explain to the customer in detail the source of the problem and what it will take to fix it. We will only do what is necessary to solve the problem."

B-Dry franchises were first sold in 1978, and now go for a maximum of \$60,000 for larger areas.

HomeCall, Inc., of Frederick, Md., provides care for the elderly in their homes. The aging of the U.S. population has opened the opportunity for a company that emphasizes what its franchise coordinator, Marty Kinkad, calls "the theme of neighbors helping to meet the needs of their neighbors."

The company was founded in 1974 by Doris Hanson, a former director of the American Home Economics Association. She saw the need to deliver ser-

vices to the elderly without forcing them to sell their homes prematurely, and started the business by thinking of what a homemaker would want to have done. The first services she provided were household chores, gardening, cooking, basic repairs and errands.

From there, the firm expanded into all types of services, including a full range of basic medical services.

But the company also exhibits the problems of service franchising. The national franchisor depends on the quality of the franchisee in services as much as in fast food. If the franchisor loses its reputation in enough localities, a mobile population will spread the word fast. The problem for service franchisors is that growth has to be slow, because finding and training franchisees, and then making sure that the service is uniform, is much more difficult than in fast food.

HomeCall has been franchising since 1975, but it still has only seven company-owned locations and five franchisees. Growth is hampered by varied Medicaid provisions in different states, and by

The market for home services firms is a big one—as long they can offer quality control.

the number of skills in medical services, nursing, social services, home economics and business experience required for a franchisee, says Kinhead.

The varying state Medicaid requirements also contribute to the franchise sales fee, which ranges from \$10,000 to \$50,000.

She adds: "Many companies and hospitals have entered the field, but many have fallen out quickly. A successful company must diversify to offer consumers a wide variety of choices without loss of quality. And large, impersonal companies won't do as well as a local franchisee who really knows the community."

Remodeling, decorating and construction are now attracting franchisors to what has traditionally been a fragmented business. Even with the healthy do-it-yourself circle of weekend handymen, there are plenty of homeowners or renters who would like to turn those tasks over to a professional, if the cost can be kept reasonable.

That is the principle behind Decorating Den Systems, of Indianapolis, says its president, Steven Bursten: "We began to recognize that consumers wanted you to come to their homes and work with them on decorating, but they needed affordability. Most people can't afford an interior designer."

Decorating Den's solution was to cut costs by not opening stores. Franchisees work out of their own homes and go to customers' houses by van. Decorating and consulting services are free; the only charges are for materials and furniture.

More extensive remodeling services are being tackled by companies like Chicago's Facelifters, Inc.; Signature Kitchen and Bath, of Hartford, Conn.; Mr. Build International, based in Santa Ana, Calif.; and Four Seasons Greenhouses, of Farmingdale, N.Y.

Four Seasons designs and builds greenhouses as room additions. It existed as a manufacturer and distributor of greenhouses for 10 years before deciding to franchise. The remodeling business is, says Four Seasons' President Christopher Esposito, a collection of small contractors: "It's a \$62 billion a year business with no giants."

Esposito sees "a wave of organization in kitchen and bath centers," although Four Seasons will stick with room additions. "Studies indicate that what Americans most dislike about their homes is that they are too small and boring. We add an extra living space."

The statistics, Esposito says, are breathtaking. The Department of Commerce figures put the number of bathrooms remodeled at 4.1 million a year, kitchens at 3.6 million a year and room additions at 1.5 million a year.

Four Seasons even offers low-interest financing, much like an auto dealership.

Mr. Build began franchising strictly as a remodeling company four years ago, but, says Philip Yocom, vice president of operations, decided that it needed to offer all kinds of property repair services.

Like Four Seasons, Mr. Build is trying to "put customer confidence back into the remodeling and repair industry," says Yocom. "A big part of the problem is referrals. For example, if a homeowner is happy with a particular plumber's work, that doesn't help him when he has a roofing problem. By providing a qualified network of professionals, Mr. Build maintains consumer confidence and convenience."

The company now has more than 500 franchises, and expects to grow by providing sales and management training to potential franchisees, because "few skilled tradesmen have much business experience," Yocom says.

Two companies, Facelifters and Signature, exhibit the difficulties that franchisors have to overcome in remodeling interiors. Facelifters has been franchising for two years and has only four franchises in New York, Texas and Louisiana.

Signature had two franchises sold, but had to draw back and regroup because the business is so complex, says Kenneth Peterson, president. Instead of converting independent operations, Peterson is bringing franchisees into the parent operation, which has been in business since 1938, to learn the techniques. That will take "about a year or so," says Peterson. The franchisees he is looking for have business back-

grounds. They learn design by working at the parent company.

Gail Goodman, director of franchise training for Facelifters, says her company offers most kitchen remodeling designs in standard packages. Their franchisees then go to the client's home to customize the final arrangement.

Facelifters also does most of the manufacturing of the materials for its designs. The franchisee does not need to be an expert designer but can concentrate on marketing.

"Our typical franchisee is not a designer," says Goodman, "but rather an aggressive person who wants his or her own business. We really let the customer decide on the design, so most of our training is in sales and marketing."

Consumers will certainly seek more home services, and that should give franchising companies a strong and growing market. **18**

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Tooling Up To Show Off

By Bob Gatty

It may look like a game, but it's really an exercise in getting the customer's attention. Steve Mizerack looks over the table with a practiced eye, studying the placement of the balls. With one smooth stroke he kisses the cue ball off two others, and a third rolls obediently into the side pocket. The appreciative crowd, watching it all on overhead television screens, gasps in awe.

As the ball disappears, an attractive woman explains a new marketing technique developed by the Miller Brewing Company, details of which appear on the same overhead screens Mizerack's amazing shot had just occupied. Miller representatives in charcoal slacks and blue blazers carefully scan the crowd to see who is paying attention. When the demonstration ends, the representatives zero in on those people—possible prospects—and engage them in conversation over a sample of the product. Meanwhile, another pair of eyes—hired by Miller—is watching the watchers, gauging the show's effectiveness.

Today's trade shows are a far cry from the image of the roomful of salesmen in loud suits rising from folding chairs to shove a pencil with the company logo at every passerby. Either alone or as part of an industry convention, trade shows are big business—an estimated \$8 billion is spent annually on staging them—and big business is done at them.

Fewer and fewer conventions are being held without the exhibits that constitute a trade show. Says Laura Greene Goldstein, director of trade shows, Gralla Conferences, New York: "Exhibits are seen as essential, and conventions generate revenues from the sale of exhibit space."

In recent years, trade shows have grown dramatically in number, size and sophistication. The Trade Show Bureau, New Canaan, Conn., which provides research for the industry, reports there were more than 9,000 trade shows in 1984, compared with 4,500 in 1978.

A study sponsored by the bureau and the industry publication *Trade Show Week* reports that between 1972 and 1981 net square footage of exhibit space used by the top 150 shows increased 14.2 percent, and the number of exhibiting companies grew 5.73 per-

The Food Marketing Institute's annual convention attracted 24,000 people and 750 companies to Chicago's McCormick Place last

spring—but big as it is, 13 other trade shows are even bigger.



PHOTO: GATTY COMMUNICATIONS, INC.

cent. Projections for growth between 1982 and 1991 are 8.2 percent for exhibit footage and 5.9 percent for company participation. Actual figures thus far are slightly ahead of projections.

"There has been a great increase in the number and types of shows," observes William Mee, managing director of the Trade Show Bureau. "Computers are a good example. Nine years ago there was one computer show. Last year there were nearly 400. The small shows are getting larger and the large shows are getting humongous."

Miller Brewing Company, whose exhibit featured Mizerack in one area and author Mickey Spillane in another, was

only one of 750 companies to display products at the Washington-based Food Marketing Institute's annual convention at Chicago's McCormick Place last May.

The FMI show ranks 14th among the top trade shows, with attendance of 24,000, more than double the 12,000 of seven years ago. Conventioneers take up 10,000 hotel rooms.

McCormick Place is one of the few sites that can offer the 400,000 net square feet that FMI needs. In fact, the facility's exhibit space is being increased to 1.6 million square feet; FMI already has booked its convention there through 1989.

More companies are finding trade shows an effective way to discover new prospects. But efficiency can be lost if planning is neglected.

Eight FMI employees work full-time on the annual show, which takes on all the aspects of a large-scale military operation. More than 12 miles of 10-foot-wide carpeting in various colors are specially installed simply to help lead conventioners to any of the 55 workshops held during the four-day meeting or other functions.

"It's kind of a yellow brick road effect," says Michael Muldoon, FMI's vice president for convention services, "but it makes it easier in a facility of this size." Even the 80 shuttle buses are identified by color-coded routes.

Some 900 laborers work four to five days erecting the exhibitions, composed of 9 million tons of freight from all over the world.

Such shows are not for low-level company minions. One sure indication is the magnitude of the entertainment. In 1984 FMI brought in Bill Cosby, the Pointer Sisters and the Beach Boys to headline banquets.

Muldoon says the biggest change he has seen over the last 10 years is the increasing sophistication of the exhibitors. "Participation used to be strictly to support the association and to wave the flag," he notes. "Now people come with specific goals and a specific target audience."

A major reason for this change in attitude is the high cost of personal selling. Analysts say that an average sales call costs \$205.40 and that an average of 5.5 sales calls are needed to bring in one order.

By contrast, a qualified lead at a trade show is estimated to cost \$89 to \$95. Exhibit Surveys, a Middletown, N.J., organization that provides research assistance to the Trade Show Bureau under contract, says it takes just 80 in-person sales calls to land 100 orders from trade show leads since more than half of these orders are secured by phone or mail followup.

Experts say the exhibit audience is there to buy, not just to look. Thus, the trade show is a cost-effective way to mine a lode of untapped clients. Trade Show Bureau audience profiles have found that in general 86 percent of the people who attend influence buying decisions in their companies and that 85

Exhibitors now come to trade shows trying to achieve "specific goals," says FMI's Michael Muldoon.



PHOTO: T. MICHAEL KEZA

percent of them had not been called on by a representative of the company in which they were interested. Recognizing the tremendous opportunity to establish firm, future sales contacts, exhibiting companies are sending the "big guns" to the shows.

"Lots of top level executives are attending shows now," says the Trade Show Bureau's Mee. "More organizations are taking trade shows more seriously and are putting their best people in the booths."

"You cannot afford to have less than your best people there," Mee explains. "Remember, they may be doing 10 to 15 presentations an hour."

As shows become more important to the overall marketing effort, more attention is being paid to choosing the right show, pre-show planning and establishing clear goals. No longer does a salesperson simply sit at a booth and hope a likely prospect passes by.

Over 30 cities are spending nearly \$3 billion either expanding existing facilities or building new ones. Every major city and many of the secondary ones now have convention sites.

This in turn has led to a spurt of hotel building to accommodate prospective guests. Many of these hotels can accommodate smaller conventions or shows themselves. Hotels are increasingly dependent on group business to stay in the black.

Convention and visitor bureaus are waging ever more vigorous campaigns to woo groups to their cities. Most major conventions book their sites three to five years in advance, so new facilities may have a tougher sale. But the returns are worth the effort.

According to the Trade Show Bureau, in 1981 the typical trade show of the top 150 had 20,000 attendees, took up 4,250 hotel rooms and had a value to the host city of more than \$8.5 million.

The 1991 projections are for a substantial increase: an average attendance of 33,000 taking up 7,260 hotel rooms and accounting for more than \$14 million in value to the city. A typical show runs three to five days.

Las Vegas and Chicago get the biggest shows—those requiring more than 500,000 net square feet of exhibit space. There are about 25 of them a year. Other prime convention spots include New York, Atlanta, San Francisco, Dallas, Houston and New Orleans.

Cities have poured millions of construction dollars into facilities and have come to depend upon revenue from the shows. The shows themselves mirror the overall trend in society for sophistication and specialization.

"There is still plenty of glitter and schmaltz on the trade show floor," observes one experienced participant. "But if you look behind the scenes, you'll see it all has a purpose, it's highly sophisticated, and it's all aimed at doing business—big business." ■

Tooling Up To Show Off

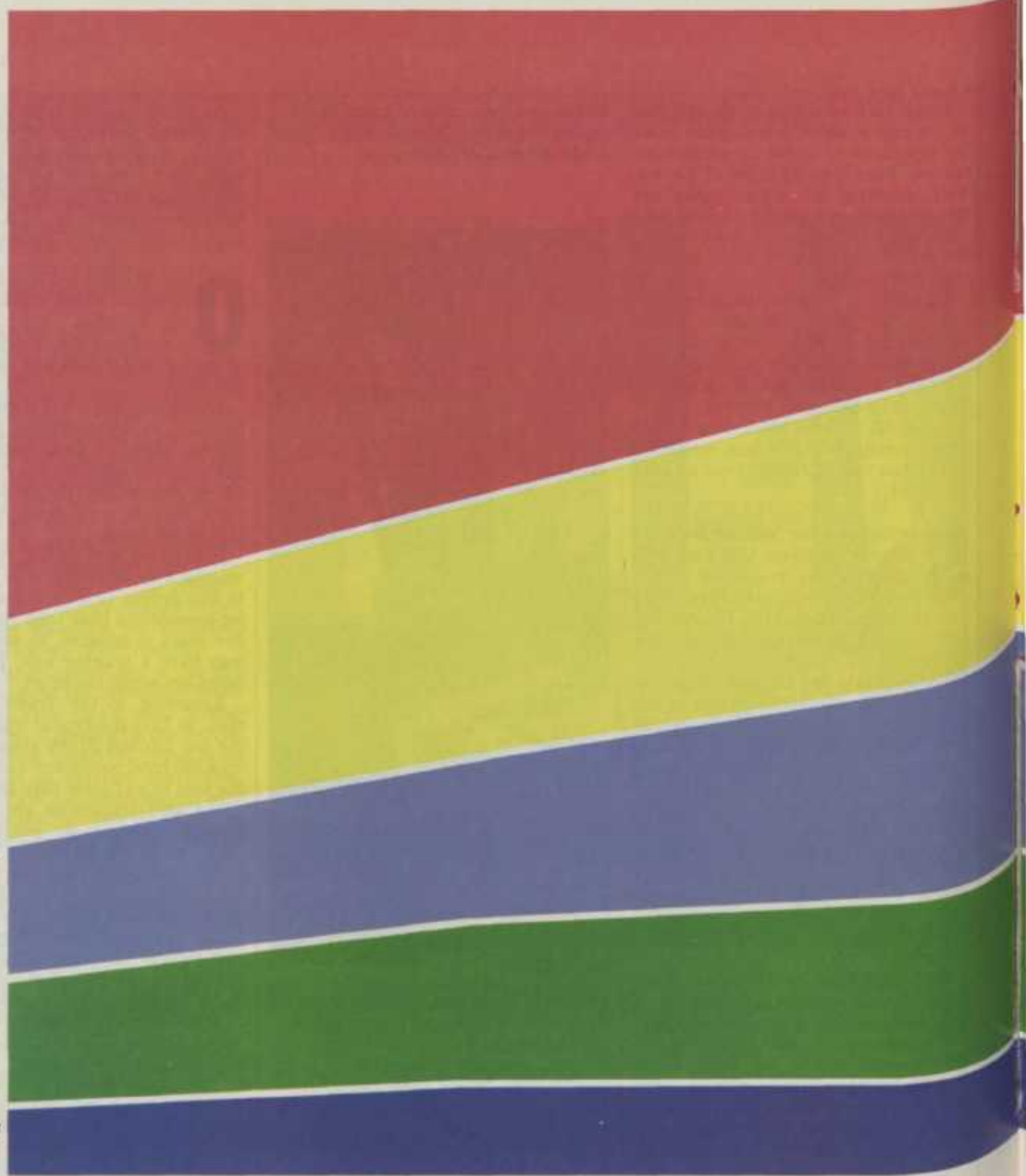
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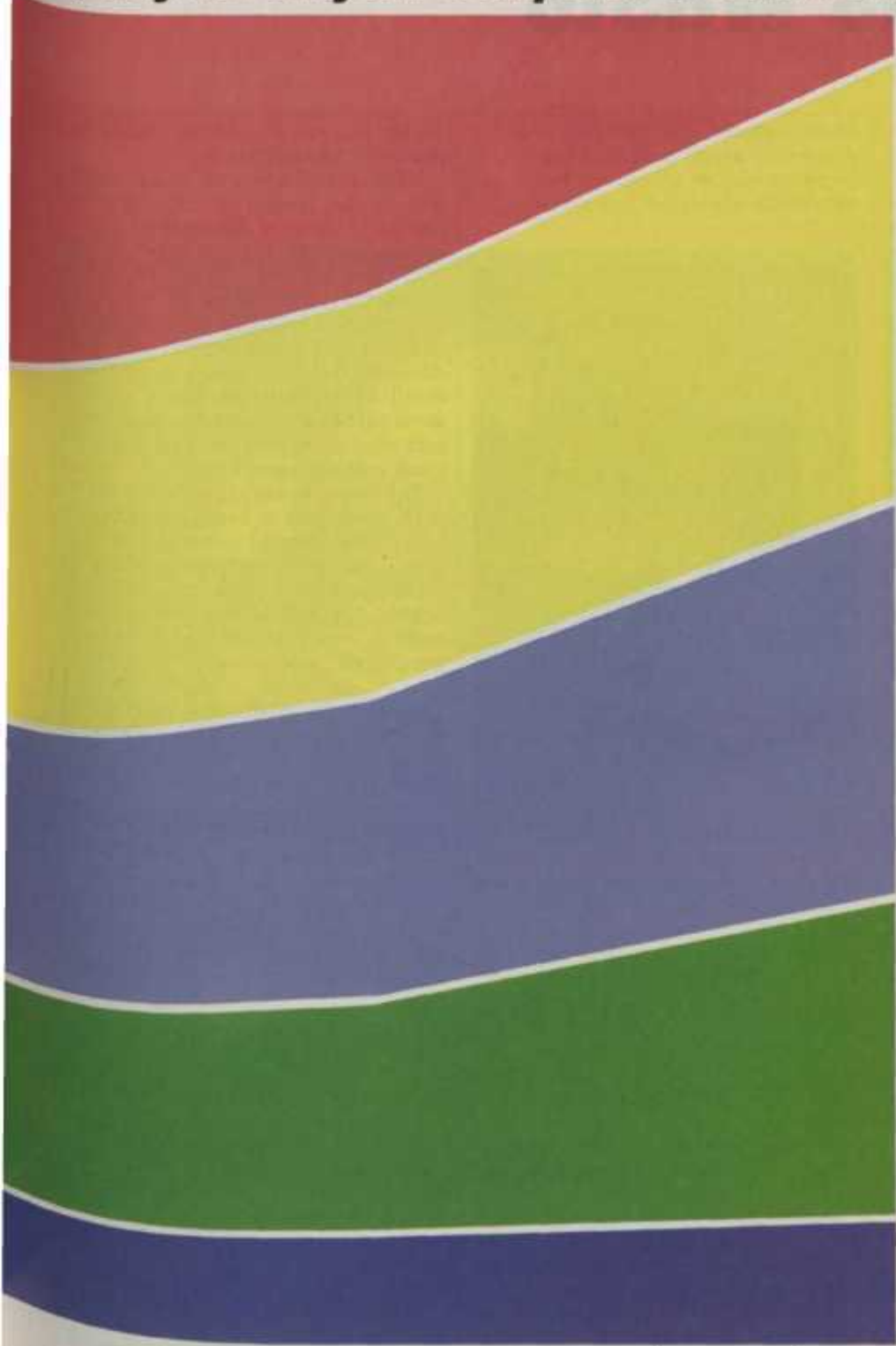
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Kenneth Noland

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Hazards From Hazardous Waste

By Patricia L. Truscelli

More than 200,000 small businesses, whether they realize it or not, are now subject to detailed federal regulations on disposal of their industrial waste, as a result of Congress' action last year broadening the scope of the 1976 Resource Conservation Recovery Act.

Many of the small companies may not even be aware that they generate hazardous waste. This can be hazardous to them, since noncompliance with the act's storage and disposal guidelines can lead to fines of up to \$10,000 per day as well as to criminal prosecution or private lawsuits. The regulations are now targeted at any business or institution generating as little as 220 pounds of waste per month—barely enough to fill half of a 55-gallon barrel.

For a while, the government is likely to be easy on smaller offenders, relying more on education than prosecution. But the handwriting is clearly on the wall.

The obvious first step in avoiding penalties under the statute is to determine precisely what industrial waste your company generates. Not only end products, but also each component of waste must be considered. Check these materials against material safety data sheets supplied by chemicals manufacturers. It is critical to segregate hazardous from nonhazardous waste; once they are mixed, all the waste must be handled as legally hazardous material.

Segregation of waste and careful recordkeeping are thus critical to successful waste management. Remember—hazardous substances cannot be transported or disposed of by any company without appropriate permits.

Small companies may therefore find themselves forced to hire others to dispose of their waste off-site.

Environmental consultants, industry trade groups, attorneys, licensed transporters or even suppliers of the chemicals may be good sources of information. Of course, the company may always turn to the Environmental Protection Agency or state authorities.

Patricia L. Truscelli, an associate in the New York and Washington law firm of Parker Chapin Flattau & Klimpl, specializes in environmental law.

Identification, recordkeeping and disposal of waste materials has become a matter of concern to thousands of smaller businesses.



PHOTO: T. MICHAEL REZA

Disposal sites themselves, whether still functioning or abandoned, are a source of major liability under both federal and state laws. Liability for cleanup and for damage to natural resources is shared by past and present operators, by owners of the land (even if they had nothing to do with the waste disposal), by those who generated the waste or contracted for its disposal and by those who transported the waste to the dump.

Not even compliance with every existing regulation at the time of disposal may be a defense.

Substantial expenses incurred can be personal as well as corporate. And each company involved may be liable jointly and severally—meaning each may be held responsible for the cleanup's entire cost.

What can a company do to limit costs and liability? Litigation against a government-ordered cleanup generally is extremely expensive. It is not recommended for smaller companies.

First, examine all possible insurance policies dating back to the company's first disposal of the waste material.

Smaller firms are now subject to broadened environmental regulations; a review of precautions is essential.

Collect all records reflecting waste disposal and transportation.

Next, participate with other companies in the process of allocating expenses, if they are assessed by a government agency.

"Fair shares" are usually calculated by an allocation committee organized by companies receiving government notices. Larger companies tend to play dominant roles on these committees. Small or medium-size firms, if they avoid participation, may find their interests wholly unprotected when a settlement is finally agreed upon.

This is not to say that each company must participate in every committee at every site. Shared counsel arrangements can prove extremely effective, particularly when organizing a defense against the private party actions that seem to be inevitable in the wake of any government proceeding.

Careful legal planning must be tailored to the particular company and business, and no single guideline can ever be applicable to every situation. However, some general rules may be noted.

One should always be aware that a current owner of property will be fully liable for the cost of cleaning up any contamination on his property even if the waste disposal on the property did not occur during the term of his ownership.

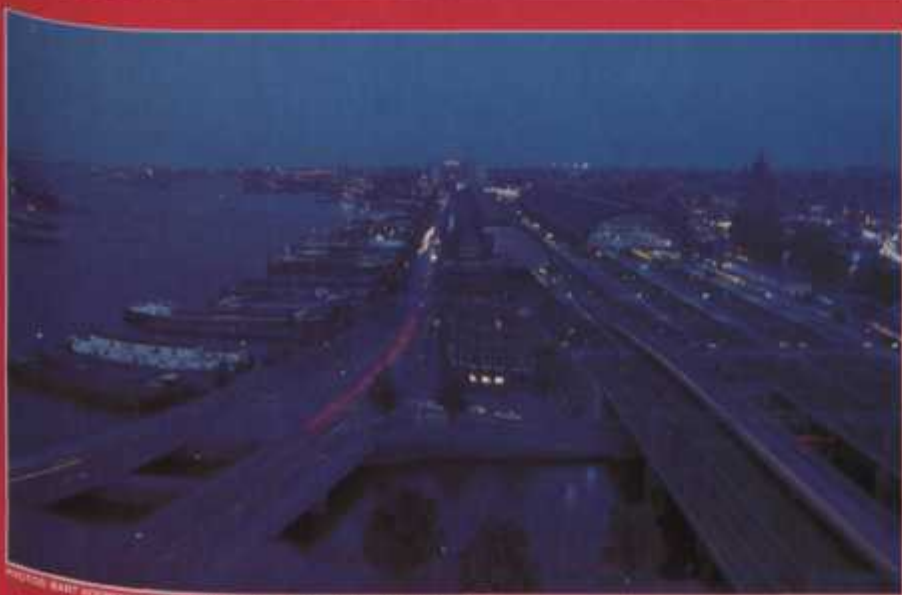
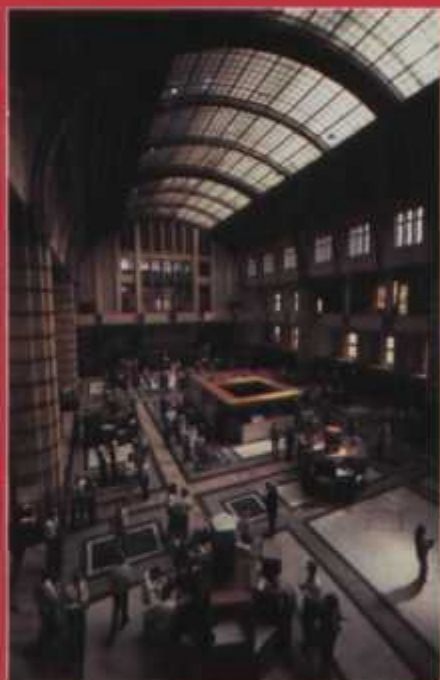
And while he may look to past owners (if he can find them) for contribution to his costs, the government will look primarily to him to either clean the site or pay the cost of cleanup.

In short, any transaction involving the purchase or sale of any business or property should be subject to the closest scrutiny for hidden environmental liability—a toxic bombshell for the unwary.

Finally, the best solution to the environmental liability problem is to avoid any situation that will attract the unwelcome attention of a government agency.

This means zealous compliance with the law, dealing with environmental problems before any claim is made and, of course, a quick and intelligent response to any notice by the government or by a private party. ■

AMSTERDAM



PHOTOS: BART KROMMEESTER (TOP LEFT), JIM OLIVE—UNIPHOTO (BOTTOM, TOP RIGHT)

American businesses, large and small, are increasingly considering Western Europe as a place in which to set up shop.

Paris and London have traditionally hosted growth-minded U.S. companies. But a third city has been gaining the attention of business—a city associated with Rembrandt, canals, flowers and advanced civil engineering, Amsterdam.

Its equitable tax laws, excellent location and highly skilled financial and technical service sectors—along with its gentle, human pace—have made Amsterdam the right spot for any sort of U.S. enterprise serving all of Europe.

Clockwise from bottom: Amsterdam links Europe to the sea; the city is laced with over 100 canals; gold and silver options are traded at the European Options Exchange.

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Tradeway To Europe

Amsterdam, largest city in the Netherlands, has been a trading center since 1275. Strategically located on the North Sea Canal, it historically brought sea trade deep into the rest of Europe. Today the port is still thriving, and the city has become one of Europe's most popular tourist attractions. It is a candidate to host the 1992 Summer Olympic Games.

For the business community, Amsterdam is also a major international gathering spot, the locale for hundreds of exhibitions and conventions a year.

English is commonly used as a second language by the business and technical communities. At this point, 48,400 businesses are registered in Amsterdam, about 1,500 of them branches of companies based in other countries. Close to 250 come from the United States. The U.S. companies include Cargill, Hewlett-Packard and Levi Strauss.

Amsterdam's Financial Community

Because of Amsterdam's important role as a sea link between Europe and the rest of the world, the city has developed into an international financial center characterized by a full range of services. Today the Amsterdam Stock Exchange, the oldest (founded in 1602) and most international in the world, lists about 200 Dutch and close to 300 foreign companies. The European Options Exchange began in 1978 to trade in Dutch, Belgian and West German share options as well as in gold and silver options.

Finally, the structure of banking is characterized, as it has always been, by dependence on foreign trade. In the past three centuries, Dutch banking activities have spread to all corners of the globe, first as service facilities for ever-expanding Dutch trade and later to get a slice of the local action as well. In return, foreign countries established nearly 40 foreign banking institutions in Amsterdam.

Trade

During Amsterdam's early years, its primary foreign trade links were to Scandinavian, Baltic and Mediterranean countries. But today the city's connections span the globe, maintained by Amsterdam's banks and trading houses, the port and Schiphol Airport.



With trade, transportation and services accounting for more than 50 percent of the Dutch GNP, Amsterdam's contributions include the world's largest flower auction, at which 8.5 million cut flowers and 700,000 plants are sold every day; one of the world's largest and best-equipped exhibition and conference centers, the RAI; the Confectiecentrum, a complex of about 400 ready-to-wear clothing companies; and the World Trade Center, opened last October, which has about 753,498 square feet of office space and where every conceivable office and communication service is available.

Industry

With more than 10,000 industrial establishments in the region, Amsterdam's industry is diversified. Amsterdam produces airplanes, beer, chemical products, computers, defense weapons, energy-saving devices, food products, generators, hydraulic pumps, industrial diamonds and jewelry. This year Amsterdam celebrates its 400th anniversary as a diamond city, commemorating the first mention of a diamond cutter—Willem Vermaet—in the city records.

While Amsterdam is cultivating growth from the outside world, it is also gaining more land just outside its boundaries. Thanks to sophisticated pumps and dams, it is transforming land previously submerged beneath the famous Zuider Zee into arable farm acreage. Holding back the Zuider Zee has been an age-old engineering challenge. Amsterdam has met the challenge with technology that has inspired the world's civil engineering community.

Transportation And Distribution

Amsterdam is the Dutch transportation hub for road, rail, air, inland water pas-

A vivacious combination of history, beauty and commercial activities, Amsterdam is attracting U.S. businesses serving the European market.

sage and short- and long-distance ocean shipping.

Schiphol Airport, 10 miles from downtown, is one of the most modern and least congested airports in the world. It has enormous jet cargo capacity, abundant bonded warehousing and plenty of room for future growth. Nonstop flights connect Amsterdam with such major American cities as New York, Atlanta, Chicago, Houston and Los Angeles.

Amsterdam also has a modern all-purpose nontidal port handling more than 35 million tons of cargo yearly. One of Europe's most versatile ports, its industrial areas contain nearly 1,000 acres of land ready for development, including parcels with deep-water frontage—a prime location for bonded warehouses that offer the benefits of a free trade zone.

Living In Amsterdam

Amsterdam has kept its historical character intact and alive while speeding toward the 21st century. It has the largest historical inner city in Europe, with more than 6,800 buildings dating back as far as the 16th century. Workers can step out of a high tech manufacturing plant and enter a world of canals, cobblestones and sidewalk cafes.

To live in Amsterdam is to live in a city devoted to the arts.

It has more than 40 museums, including the Vincent Van Gogh Museum and the Rembrandt House. It is also the home of The Netherlands Opera, the Dutch National Ballet and the Concertgebouw Orchestra.

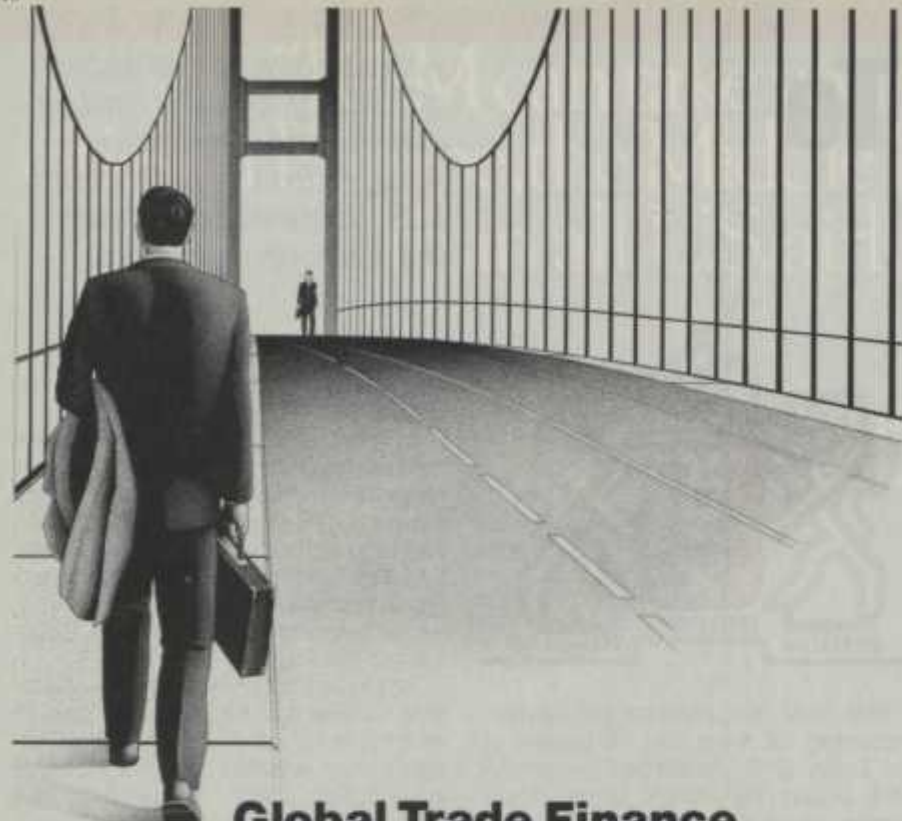
There are many live theaters and at least 50 movie theaters.

Shopping in Amsterdam is chic and varied, restaurants give the gourmet a multinational choice, and night owls can revel until the early morning Amsterdam sun lights up the canals.

Education in Amsterdam is international. Students from more than 30 countries attend the International School of Amsterdam.

For more information about living and doing business in Amsterdam, contact the Amsterdam Promotion Foundation, World Trade Center Amsterdam, Strawinskylaan 619, 1077 XX Amsterdam.

Also contact the Amsterdam Chamber of Commerce and Industry, Koningin Wilhelminaplein 13, 1062 HH Amsterdam.



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KLM Wins Awards

The Netherlands has looked upon KLM Royal Dutch Airlines with a special pride since 1919, when the service was established in Amsterdam. It was the world's first commercial airline, the first to train flight attendants and, after World War II, the first to operate scheduled service between Europe and North America. More recently, in 1983, it was the first to press into service the jumbo B747-300—the large jet with the distinctive upper deck that is 23 feet longer than the deck on the standard 747.

Last January, the Netherlands was proud of its airline once again. The industry publication *Air Transport World* named KLM Royal Dutch Airlines "Airline of the Year for 1985."

Says KLM President Sergio Orlandini, who accepted the award in New York: "It is indeed an honor to be recognized by *Air Transport World* for two consecutive years—as best in passenger service in 1984 and as airline of the year for 1985. We will continue to initiate new developments and maintain our high standards of quality and service."

KLM's innovations, its financially sound operations and dedication to quality during its 66 years of operation were the primary reasons cited for the award. The airline has consistently maintained profitable operations and will report its 10th consecutive profitable year when the current fiscal year ends March 31. Profits for the last fiscal year were \$96.7 million.

KLM's dedication to quality is evidenced by its "Product 86" program, an ongoing effort to upgrade passenger services.

Among improvements initiated under Product 86 have been improved meal selections; more comfortable seats in business and "Royal" (first) classes and, in tourist class, complimentary movies, headsets and cocktails.

In addition to KLM's outstanding operations and service, *Air Transport World* also mentioned the airline's cooperation with other carriers.

KLM was largely responsible for forming the KSSU maintenance and engineering group, a cooperative of airlines developed to pool maintenance on aircraft and provide partner airlines with a supply of engines and components.

In the United States, KLM serves New York, Atlanta, Houston, Chicago, Los Angeles and Anchorage.

The IRS View Of Home Office Costs

Home-based entrepreneurs enjoy special tax advantages. But the breaks are not without risk.

By Michael C. Thomsett

By working in her home, Linda Allen says she enjoys a kind of freedom and flexibility foreign to the poor souls who crowd the highways every rush hour. She also enjoys special tax breaks that help preserve her hard-earned income.

Allen, a self-employed literary agent since 1982, lives in San Francisco. "Because I have a home office, I can take about \$5,000 off the top of my annual income," she says.

With combined federal and state income tax, that much of a deduction could save self-employed people as much as \$2,000 or more per year, depending upon their tax bracket. But beware. A poorly established office in the home can be a red flag for an audit by the Internal Revenue Service.

One accountant gives this advice: "Unless you are willing to expose yourself to an audit, I'd say don't take the deduction. Most businesses at home do not add up to a substantial enough expense to justify the risk."

The IRS is very particular about the meaning and use of a home office. It is most flexible in its definition of "home." According to an IRS instruction booklet, home can be a conventional residence (house or apartment), but it can also be a mobile home or even a boat. The rules also allow deductions for offices in outbuildings on your property such as a garage, studio, barn or greenhouse.

But after this initial easy definition of what can be used as a home office, the going gets tougher. You must be able to pass what the IRS calls "use tests."

- The stickiest of these tests is the exclusive use rule. This is where you are most likely to drop out of the game. Everything in your working area must relate directly to your business. The rest of your life cannot overflow through the doorway into your office: no toys, no hobbies, no light reading, nothing that is not business-related.

- You must be able to demonstrate that you use the office regularly. Occasional or incidental use of this space

Michael C. Thomsett, formerly an accountant for small firms in the San Francisco Bay area, writes on business topics.



will not qualify you, even if that space has been exclusively reserved for your business. Keeping a desk calendar is a good way to establish a pattern of use.

- The home office must be the principal place of business. If you have more than one business (you are an employed engineer but run a retail business on the side, for example), you must be able to prove that your home office is primarily used for at least one of your businesses.

- If you primarily conduct business in another location, you can still claim home office deductions if you meet clients, patients or customers in your home. Doctors, dentists and lawyers generally qualify under this rule. It is not sufficient, however, simply to make phone calls from this office.

- Separate structures on your property must meet the same tests to qualify for a deduction. You cannot use them for storage of personal property or any other purpose not related to your business. But you can deduct home space if you use it for inventory storage or as a commercial day-care facility.

If you have an outside office, it is extremely difficult to justify a claim for the business necessity of also maintaining a work area in your home for the same enterprise.

To justify a home office claim, suggests David M. Hellman, a Northern California attorney and certified public accountant, attach documentation to your tax return.

"As a general rule, if you have deductions that appear unusual [home office, auto or personal computer, for example], the more substantiation you supply, the less likely it is that the IRS will audit you," he says. This kind of documentation can include calculations to determine your office space, a copy of a property tax bill to substantiate the value of your building and copies of invoices for insurance, utilities, repairs and telephone.

Assuming you qualify for the deduction, you are allowed to claim expenses in two categories: direct and indirect. Direct expenses are those attributable to your home office only, such as painting, carpeting or repairs. Indirect expenses are costs of buying and main-

MANAGING YOUR BUSINESS

The IRS View Of Home Office Costs

taining that are attributed to the home office portion. These expenses can include real estate taxes, mortgage interest, casualty losses, rent (for non-owners) or depreciation (for homeowners), utilities, condominium fees and insurance.

For tax purposes, the value of your home office is directly related to the success of your business. The total you deduct cannot be greater than the gross amount you receive from the business activity.

The IRS recommends that, when computing expenses, you factor in the proportion of your home used and the total time you use that space. For example, if your house has a living area of 2,000 square feet, and you use one 200-square-foot room for your office, you can deduct only 10 percent of the allowable indirect expenses. And if the room was used for a home office only nine months in a year, you are qualified for only three quarters of the allowable total.

Result: 7½ percent of the total indi-

rect expenses qualify for the home office deduction.

If you own your home, and your working space qualifies as a home office, you are also eligible to deduct the estimated office value as it has diminished by use and age. This depreciation is not a large deduction in most cases. By law you can claim only 1/18 or 1/19

of your allowable space, depending upon when you set up your home office. You cannot deduct the value of land.

If you rent your home, you cannot depreciate, but you can still take the home office tax advantage. Estimate the percentage of the living space that you use as a home office. Use that percentage to determine how much of your rent pays for the office space. This is the amount you can include in your indirect deductions. In Allen's case, one fourth of monthly rent of \$1,100 is deducted, plus the same portion of approximately \$145 per month for utilities and maintenance.

Many small business owners live in apartments with no room for a separate office. But they can take advantage of home office deductions, anyway. Even if the desk is just a door sitting on a couple of cinderblocks, the value of the space it occupies can be included in the indirect deductions.

Allen, who will save significantly on her 1985 tax return, has never had her home office deductions challenged by the IRS. That is because, she says, "I save everything, and I'm very organized. My accountant is excellent and thorough, which is essential if you claim a high-profile deduction like a home office."

Steven Pyrek, a public affairs officer at the IRS, says that, in an audit, an agent is unlikely to come to your home to check up on your office. If the IRS questions your use of the home office, you must bring the proof to the auditor.

That is one more reason to keep good records. **B**

To order reprints of this article, see page 73.



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It's Your Money

The major stocks have gone up dramatically; investors might consider smaller issues.

By Ray Brady

Blue-chip stocks like those in the Dow Jones Industrial Average are up so much in recent months that they may not look like bargains. Growing numbers of Wall Streeters are beginning to seek out likely buys in other areas, combing the lists of secondary and smaller issues. Not only do stocks like these get overlooked, they often rise after the bigger issues have moved up.

Secondary stocks in fledgling companies, often with less than \$50 million in market value, are not the "penny" stocks traded in various exchanges around the country. They are on the New York and American Stock Exchanges and in the over-the-counter market.

Walter Mintz, of Cumberland Associates, the big New York money management firm, makes this point: "There is more money to be made—or lost—in small stocks than in big ones. There's a greater risk in them, so you get a greater reward when they work out."

My own "best" investment was one of the secondary stocks: a housing issue known as Pulte Homes. When everybody was buying the bigger housing issues, there was Pulte with a solid market in building moderately priced single-family homes. Unlike some of the bigger builders, moreover, the company generally did not start putting up a house without a down payment from the buyer. In other words, the company had a bright future, and it was financially prudent as well.

Still, its stock was sitting there, underpriced. Exactly one year and eight days later (just long enough for a capital gain), every dollar I put into that stock was worth more than \$5—a real winner, and one that far outperformed many bigger housing companies.

As Walter Mintz suggests, however, the very fact that a company is small does not mean its stock will automatically put you on the road to riches. Far from it. In fact, there have been long periods in stock market history when small stocks were completely out of favor with investors. From the mid-1970s to the early 1980s, small stocks as a group easily outperformed the rest of

Should you buy stock of a smaller home builder, rather than of bigger builders that get more attention on

Wall Street? There have been times when that has been mighty profitable.



PHOTO: GARY KETTER

the market—including big blue chips—by a wide margin. But then the tiny tots got overpriced, and the market began to ignore them.

In early 1983, the pygmies began to rise again, sent up by the boom in electronics stocks—many of which were tiny start-up companies—and by Wall Street's appetite for fast-food issues.

Small stocks can have one big advantage. Every day, countless Wall Street analysts do nothing but follow "big stocks" like General Motors, IBM, General Electric and RCA. In recent years, however, the number of small stocks has ballooned, particularly those on the over-the-counter market. They could be in a business familiar to the executive investor, who is therefore in a prime position to gauge the company's future prospects.

The key point: There are now so many of these smaller stocks that Wall Street security analysts simply do not have the time to follow all of them. "Obviously," says Mintz, "a lot of these stocks are just being ignored. That results in what economists call an inefficient market—where the stock's market value is below its true worth. That is when it becomes a buy."

Smallness is the key to why these secondary issues perform so well. There is no doubt that IBM is a great company, and its stock has been one of

the biggest market winners of all time. But a single new product will not make a really major difference in the outlook for IBM. For a small company, one new product can send the price of its stock up two or three times—or even more.

Similarly, that small firm may hold just 1 percent of its market. But if it can raise that share to just 2 percent, it has doubled its business.

Still, there are risks in small stocks—more, perhaps, than in putting your money with the giants—and the investor should be aware of those. Although a new product can turn the company into a stock market winner, many of the small firms are entirely dependent on one product; if that product stops selling, or turns out to be defective, the company's fortunes, and its stock, will plummet. The loss of a big customer can slice sharply into earnings. The loss of even one or two key people can do a lot of damage to a small firm.

If the idea of putting money into small companies sounds too speculative, the investor can find a number of mutual funds that invest primarily in the stocks of small companies.

They include Fidelity Investments in Boston, the Vanguard Group in Valley Forge, Pa., and Dimensional Fund Investors, in Santa Monica, Calif. ■

Ray Brady is the business correspondent for CBS News.

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Introducing the Xerox 4045 Laser Copier Printer.

It's the desktop copier/laser printer

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For one thing, it's a sophisticated laser printer. It can print up to ten pages a minute. Which is ten times faster than standard office printers.

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Not only that, but with the Laser CP's graphics capabilities you can merge all the forms, logos, texts and signatures you want printed and produce documents that anyone would be proud of.

But as we said before, the Laser CP has a dual personality. It doubles as a high quality convenience copier.

The Xerox 4045 Laser CP is only one example of what Lasography has to offer your office, remote or distributed

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All of which will put your office exactly where it belongs.

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COMPANY _____

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If you can't wait, call:

1-800-TEAM-XRX, ext. 179

(1-800-832-6979, ext. 179)

179 _____ 007.1/86

Answers To Your Questions

Information on savings, secretaries, trade zones and collecting unpaid and overdue bills.

Selling To The Government

Whom do you have to contact to be allowed to give quotes on government defense contracts?

B.B., Millersburg, Ohio

Two federal government publications might be helpful: *U.S. Government Purchasing and Sales Directory*, stock number 045-000-00226-8, \$5.50 per copy, and *Selling to the Military*, stock number 008-000-00392-1, \$6 per copy. You can order them from the Superintendent of Documents, Washington, D.C. 20402. Be sure to mention the stock number in your order.

Savings Shelters

What is the difference between Series E and EE U.S. Savings Bonds? I have heard that savings bonds are not taxable until cashed. Is this true?

N.N., Mechanicsburg, Pa.

Series E Savings Bonds, issued from 1941 to 1980, were assigned a fixed interest rate at the time of issue. They currently earn 7.5 or 8.5 percent interest, depending on when they were bought. These bonds are no longer for sale, but many are still earning interest.

The Series EE Bonds currently on sale receive interest under a market-based variable rate system. Interest rates change every six months in May and November. The rates are tied to Treasury Department securities and can go as high as the market carries them. There is a guaranteed minimum rate of 7.5 percent. In order to receive the variable rate, the bonds must be held for at least five years and, at redemption, they will receive an averaged interest rate for the entire time they were held. If the bonds are held less than five years, the interest is figured on a fixed graduated-rate scale, starting at 5.5 percent after the second year and reaching 7.5 percent by the fifth.

You will have to pay federal taxes on these bonds eventually, but you may defer your obligation until you redeem the bonds. The interest earned is never subject to state and local taxes.

Pooling The Secretaries

My company is pursuing the idea of providing a secretarial cooperative for



the tenants of the professional office building it owns. We would appreciate any information you may have regarding this subject.

K.R., Arcata, Calif.

Shared office space, also called an executive suite, typically has the kind of arrangement you are considering. Either the office tenants on one floor get together and share secretarial help, or the building's manager contracts with a secretarial service to provide office support. Frank Fox, director of the National Association of Secretarial Services, says an executive can save up to \$1,000 a month, and much precious time, by leaving the support staff management up to someone else. Your secretarial service might be very welcome in your building.

NASS has published a handbook detailing how executive suite services work. To order, send \$26.95 to Executive Suite Manual, NASS, 240 Driftwood Road, S.E., St. Petersburg, Fla. 33705.

Duty Free Shop

I have recently come across a reference to foreign trade zones and how they promote manufacturing in the United States. What are the details?

M.L.K., Akron, Ohio

The federal government has chosen more than 200 sites throughout the United States where a manufacturer can import raw materials and parts duty free and assemble them. The manufacturer is taxed only when the fin-

ished product is sent to another part of the country. If the manufacturer exports it, there is no U.S. duty at all.

As of this writing there are 124 general purpose zones and 92 subzones. Subzones must be used only for specific purposes, such as car assembly. For more information, contact Peggy Miodof, administrative assistant, National Association of Foreign Trade Zones, 1101 Connecticut Avenue, N.W., Suite 700, Washington, D.C. 20036, or call (202) 857-1132.

Collecting What Is Due

What is the fastest, cheapest and most efficient way to collect overdue bills?

V.C., New Philadelphia, Ohio

"Most people want to pay their bills," says David Peterson, American Collectors Association official. If bills go unpaid, however, he advises sending a registered letter to the debtor's home. With an increasingly mobile population, Peterson says, there is a good chance the address may have changed. A receipt for the registered letter will tell you the address is good.

The next step, if the letter evokes no response, is to telephone your debtor. Peterson says this presents a good opportunity to learn if there is a problem with the product or a billing error. If the debtor is simply not willing to pay, it is time to decide whether to go to a collection agency or lawyer.

Peterson says to watch for signs that your debtor has filed for bankruptcy (such filings are listed in public local records). If he has, identify the case's bankruptcy trustee and make sure you are on the trustee's list of creditors.

For more information, contact the ACA, 4040 West 70th Street, Minneapolis, Minn. 55435, or call (612) 926-6547.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Marketing

Advertisers can do more than talk about the weather, says a new firm—they can take advantage of it.

By Nancy L. Croft

Don't be surprised if, on one of those dreary summer days as you watch TV in your rec room, a piping hot bowl of soup appears on the screen. After a few minutes you saunter to the kitchen to see what unexpected delectables it might hold. Not coincidentally, the kitchen radio is also cooing about soup. You decide a bowl of clam chowder would be perfect on such a gloomy day, so you pull a can out of the cupboard.

Hot soup in summer?

If Fred Ward and Cynthia Poe have their way, marketers could be doing more advertising of things like ice cream in winter and colds medicine in summer. They have started a Concord, Mass., company called Advertiming that pinpoints the most effective placement of radio and television ads according to the weather.

The firm contracts with a company, NPD Group, that asks randomly selected families nationwide to record in diaries purchases and other consumer activities. Advertiming compares the diary results to particular weather conditions to determine how the latter relate to buying behavior.

Using up-to-the-minute meteorological forecasts in various markets, Advertiming says it can predict with better than 80 percent accuracy what types of ads will best attract consumers under certain weather conditions in the succeeding 24 hours. (It says the accuracy drops 15 percent for a 48-hour period.)

It then notifies its clients to place or pull radio or TV ads in specific markets.

"We can make an advertising budget 50 percent more effective," says Ward, Advertiming's president.

It is not just a question of temperatures. "If you're trying to determine whether the weather is good or bad for a product, it is much more how the day looks than how it feels," Ward explains.

Advertiming's research has found that dark days are perceived to be colder, prompting people to do cold weather things—like drink hot cocoa. And a cool, breezy day in summer is better for soft drink consumption than a hot, humid day. "The time you think about thirst is when your throat is dry, so the weather that causes you to be the most active will drive your thirst up," Ward says.

Buying patterns are often affected by the weather, say Fred Ward and Cynthia Poe. Their company uses

weather to help clients make the most of their ad minutes.



PHOTO: JOHN BLANKINS—BOSTON GLOBE

Similarly, as General Foods found out, rainy days are disastrous for beverage sales. One summer in the late 1970s, recalls George Williams, associate information management director at General Foods, 11 out of 13 week-ends were rainy in the Northeast. It was a terrible summer for the company's beverage brands, he says. For some months, General Foods has been testing Advertiming in marketing two of its major beverages, and the company feels good about the results so far, Williams says.

As a former Boston TV weatherman (called Dr. Fred) and a principal in a meteorological data company, Ward had long observed the weather's effect on human behavior and had decided that marketers were not using the weather to their advantage.

Two years ago, he and Poe started Advertiming (then Information Professionals, Inc.). Poe, who owned a meteorological consulting company and also was product manager for Ward's firm, became Advertiming's vice president.

It is difficult to track the seven-employee company's success because most of its clients are reluctant to reveal information about their marketing strategies.

Clorox Company has been testing Advertiming for its Kingsford charcoal but is mum about effectiveness. Clorox

does say, however, that it has had no problems getting stations to substitute ads on request.

To avoid stations' putting up a fuss about having to rearrange ad placement on short notice, Ward suggests the advertiser contract for a certain number of commercials to be aired regularly and add commercials when Advertiming spots prime days for the company's product.

Most station problems occur when advertisers pull scheduled commercials, leaving an empty block to fill. Stations are cooperative about adding commercials, because, says Ward, "it's like an empty airplane seat. Once the plane takes off, you've lost a sale forever. The same with television time—if you don't sell it today, you can't sell it tomorrow."

Advertiming charges \$1,000 per month per market for its service, and Ward expects to gross \$1 million in the next year. But after a year and a half of active business (the company spent the first six months analyzing data and buying computer equipment), Advertiming can boast only a dozen clients.

Ward does not seem disturbed. "We've gotten over the hurdle of convincing people it's doable," he says. The company has obtained repeat business. "They trust us," Ward says. ■

New Links For The Business Office

By Karen Berney

If you have been in Wisconsin lately, chances are you have seen people lining up to enter a parked truck identified by the familiar Bell system logo and the not-so-familiar acronym ISDN painted in bright blue across each side.

ISDN stands for integrated services digital network, a technology that Wisconsin Bell Telephone Company and its Bell cousins nationwide are committed to introducing and popularizing as an alternative to good old telephone service as quickly as possible.

Since July, Wisconsin Bell has presented its ISDN roadshow to citizens in 14 cities, and most, according to the company, like what they have seen.

McDonald's Corporation is also impressed. So much so that it has agreed to become the first company in the United States to share the time and cost of running an ISDN field trial due to begin this fall.

Using ISDN, McDonald's Oakbrook, Ill., headquarters and two neighboring buildings will conduct business as usual with one big difference: All their voice and data communications will be transported over one pipeline instead of many separate ones.

Gone will be the cabling systems for departmental local area networks; those LANs will run on ordinary telephone wire. Gone will be the coaxial cables needed to connect IBM mainframes to microcomputers; the mainframes will shoot data back and forth between micros also over phone wiring. Gone will be modems; McDonald's computers will be linked to an ISDN conversion box directly plugged into a phone jack.

Most important, gone will be the costs and headaches of managing multiple networks. "We looked at nine approaches from different vendors, and we are convinced that the test will bear out that ISDN is the way to go," says Pat Krause, McDonald's telecommunications director.

ISDN is not something you can buy today. But it is on the way, and if you are an advanced planner like McDonald's, "you will probably come up against it sooner than you realize," notes Fritz Ringling, an analyst with the Stamford, Conn.-based consulting firm, the Gartner Group.

Robert Miller, ISDN manager at GTE Communication Systems Corporation, says a major inefficiency in today's office is the inability to share resources over the

same network. ISDN will solve this problem "by funneling all voice, data and image messages through the same pipe," he says.



PHOTO: DON STEVENSON—BLACK STAR

According to Robert Miller, ISDN manager at GTE Communication Systems Corporation, Phoenix, the ISDN countdown will start this year when there will be a proliferation of field tests in North America, Europe and Japan. BellSouth Corporation, for instance, has lined up five corporate customers for experiments late this year and will follow with one involving 400 households. At the same time, semiconductor vendors will be getting ready to mass-produce the integrated circuits needed for ISDN equipment.

By the latter half of 1987 the first generation of ISDN terminals should appear on the shelf, and the service will be in place in major metropolitan areas. Toward the end of 1989 most urban centers will be offering ISDN, with businesses the primary market. In the early 1990s ISDN is expected to move into the home as well as smaller cities.

ISDN proponents, mainly the regional Bell operating companies that spun off from American Telephone & Telegraph Company a little over two years ago, are making a lot of promises.

"The beauty of ISDN is that it is the

most cost-effective way for us to provide information services and for the consumer to take advantage of them," asserts Trig Rohrback, manager for network planning at Bell Atlantic. The phone companies save and pass on the cost gains of engineering, managing and maintaining one network, and the customer gets all the productivity dividends for just the cost of an ISDN terminal. "That keeps them [customers] out of the no-win situation of investing in equipment heading toward quick obsolescence," he claims.

Of course, how quickly these economies of scale are achieved depends on consumer demand. But because ISDN goes a long way toward "solving the basic problem of how to link communications equipment from different manufacturers," Miller thinks it is going to be very successful.

Burns Hollyman, a telecommunications specialist with the accounting firm of Peat, Marwick, Mitchell & Company, agrees. "ISDN is going to benefit users large and small," he says. "This is one technology they do not have to be

Telephone and computer firms are working to perfect a way of sending all kinds of information over one wire.

suspicious of and should be positioning themselves for."

The key to many of these expected benefits is standards—which in essence is what ISDN is all about. ISDN, explains Miller, is a set of evolving standards being prepared by the Consultative Committee on International Telephony and Telegraphy. When followed by equipment vendors, these standards will permit every communication device, such as phones, computers and facsimile machines, to plug directly into the same wall jack now used exclusively for telephones.

Because of universal standards, customers will not have to worry about being locked into a vendor's proprietary technology when they buy equipment. Today, for instance, if you purchase a private branch exchange switch, it will only work with phones made by that PBX manufacturer. With ISDN you will be able to mix and match different manufacturers' products.

Once plugged in, an ISDN device will have access to three digital channels instead of the one analog channel of today: Two will send up to 64,000 bits (a bit is the smallest unit of information that the computer recognizes) of voice or data per second. The third channel will transmit data—at 16,000 bits per second—that will be sent by the phone company as "packets" interspersed with data from many other customers.

On the performance front, these high speeds are ISDN's greatest advantage over conventional technologies. With a modem, computers typically send data at a rate of between 300 and 9,600 bits per second. With ISDN, information will travel as fast as 128,000 bits per second. What might a business do with that capability?

The most often mentioned application is simultaneous transmission of voice and data. For example, two members of a project team—in the same office or different locations—could use the two ISDN channels to edit a report on a computer screen while discussing its contents over the telephone. As work progresses, one member could retrieve additional information from an external data base by using the third ISDN channel.

ISDN depends on central office digital switches like AT&T's 5ESS, which can handle up to 100,000 lines.



PHOTO: AT&T NETWORK SYSTEMS

"This could really help a small business," says Michael V. Vogel, technical support manager at AT&T Network Systems. Take the merchant with only one line. "To him that one telephone means money, and when he is tying it up to do credit card checks or tap into an outside computer, he could be losing customers," Vogel says.

With ISDN, the merchant can leave one channel open to receive calls while doing credit card verification over the other. And, if he needs to link up with an outside computer for inventory control or ordering, he can do it on the third ISDN data line and leave both voice channels free.

As more standards evolve, ISDN will provide access to even faster data speeds. One, due to be completed this spring, will enable customers to use ISDN terminals to send information at a rate of 1.5 million bits—megabits—per second, the speed at which many local area networks now operate. Unlike currently available LANs, though, an ISDN LAN would carry voice as well as data, and, of course, not require a separate cabling system.

None of these applications are new. All can be implemented with existing technology, albeit with separate networks. So, to beat out the alternatives ISDN is not only going to have to be faster and cheaper to install, but also competitively priced.

No one, not even the phone companies, knows for sure how much ISDN services will cost. The answer will come from the Federal Communications Commission, but the issue has yet to make the agency's agenda.

Richard K. Snelling, executive vice president of networks at BellSouth, says preliminary research shows that for ISDN to penetrate 15 to 20 percent of the residential market it cannot cost more than 20 percent of what a customer now pays for local telephone service.

In business, British Telecom—the only phone company offering ISDN today—has found that customers will pay 2½ times what they were paying for one phone line before ISDN. "That is still a good deal because with ISDN they are getting access to three phone lines at the rate normally charged for 2½," Snelling notes.

When ISDN is announced as an option by your phone company do not push the panic button. If you want it, you will not have to junk all of your old equipment. ISDN can be phased in. For instance, only 2 percent of your lines might be ISDN.

But no matter how many ISDN lines you have, all will require a special ISDN phone terminal. And computers will need a plug-in board or terminal adapter to talk to ISDN, unless the computer already has ISDN standards built into it.

Finally, you will be able to pick and choose among the pieces of ISDN service. As Kenneth J. Thurber, president of Architecture Technology Corporation, Minneapolis, says, ISDN is like a six-lane superhighway. Some people will want one lane, some three and others all six. But not every location in America will need the highway at all. "In some places," he says, "graveled roads will probably do just fine." ■

To order reprints of this article and the following two, see page 73.

A Print Shop On Your Desk

Rachel Farley-Crisp used to get frazzled and frustrated as her monthly deadlines approached. She writes, edits and designs Weyerhaeuser Company's semiannual 12-page newsletter, and, she says, "I found myself spending a great deal of time on paste-up and proofreading at the expense of reporting and writing."

Now, however, she never touches scissors and paste or galley proofs. Her new tools are a personal computer and laser printer that, in three days, turn the *Weyerhaeuser Maintenance Journal* into the kind of professional looking publication that used to require two weeks of "tedious back and forth to the typesetter," she says. As a result, "I am now working faster, smarter and more creatively. I am on the computer all the time. . . . I could never give it up!"

Farley-Crisp is one of a small but rapidly growing number of users of a new technology that goes by a variety of names including "desk-top," "in-house," and "personal" publishing. It enables the operator to compose publications ranging from one-page flyers to newsletters to full-length books, complete with illustrations, on the computer screen exactly as they will look on the printout.

In computing circles, this is known as WYSIWYG ("what you see is what you get")—pronounced whizzywig.

Electronic publishing, though not new, has only recently become affordable for smaller operations. High volume publishers such as aerospace companies and government agencies have been making sizable investments in it for years. In the largest printing contract ever let by Uncle Sam, the Department of the Army recently awarded Electronic Data Systems Corporation, Dallas, \$62 million to link as many as 200 Army facilities in the United States and abroad in a network that will enable electronic entry of technical and training manuals. When up and running, these sites will transmit complete pages to commercial print shops expected to put out 26 million pages daily.

Typical of the kind of configuration the Army might use is a work station connected to a high speed laser printer and a high resolution scanner for photography and artwork. Such a system

Paul Brainerd founded Aldus Corporation two years ago to spearhead the development of software that lets users create

professional quality pages, complete with text on graphics, on the screen of a personal computer.

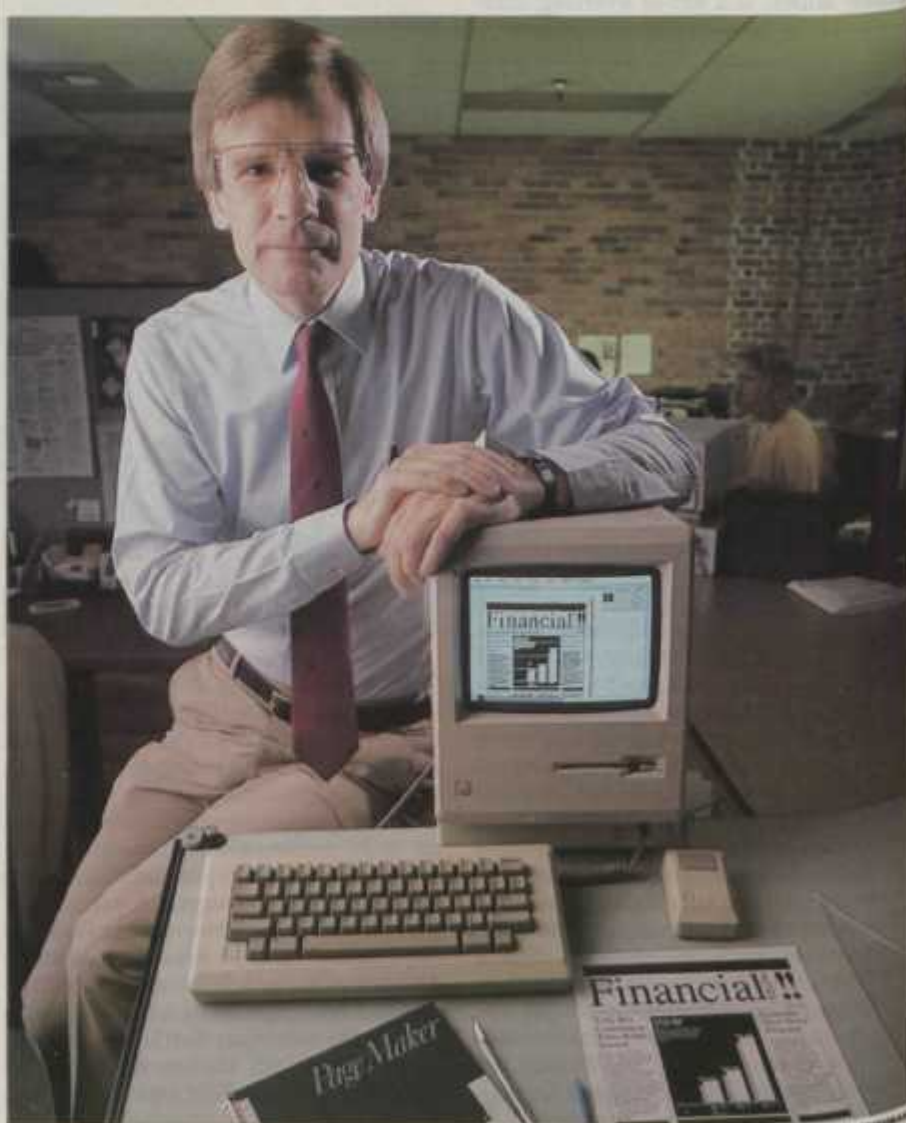


PHOTO: RICH FREEMAN

sells for about \$80,000 and can easily exceed \$200,000 if a few more work stations are attached.

Today, people like Rachel Farley-Crisp are becoming self-publishers for as little as \$10,000 to cover the cost of a personal computer, software and a printer. At that low price, desk-top publishing will burst into nearly every office that produces documents in volume, says Arlene Karsh, director of

computer publishing services for C.A. Pesko Associates, Inc., a Marshfield, Mass., consulting firm.

This is a drastic change from just two years ago when sales of desk-top systems accounted for a tiny percentage of the \$700 million electronic publishing market, says Karsh. This year desk-top publishing vendors will command 17 percent of a \$1.4 billion market and by 1990, sales will top \$1.2 billion and ac-

More control, tighter deadlines and better appearance can all be managed by personal computers.

count for 26.5 percent of a projected \$4.25 billion business, estimates Karsh. So far-reaching could be the impact of desk-top publishing that many are hailing it as the next Lotus 1-2-3, the popular spreadsheet software that made personal computers the mainstay of corporate financial departments. "This is a landmark technology that is going to change the way the nation thinks and works," claims Terry Ulick, editor of the new magazine, *Personal Publishing*. "Once people who work with words get a whiff of its advantages, they are going to be crying out for their own systems much as numbers people screamed for Lotus," he asserts.

"I am not predicting that DTP will be an overnight success like Lotus, but it certainly has the potential to be," says Paul Brainerd, who coined the term DTP (for desk-top publishing) and founded Aldus Corporation, Seattle. Aldus created software that enables DTP systems to combine text and graphics on the screen. He adds: "There are at least as many writers as financial analysts in the corporate world."

If acceptance of Aldus' product is any indication, DTP is going to be very big indeed. Since Aldus started shipping its \$495 PageMaker program last July, the firm has grown from 8 to 40 employees, installed several thousand units and seen purchase orders increase 40 percent each month.

Three developments have made DTP attractive: lower costs for computing power (the personal computer can do much that used to require a minicomputer), a low-cost laser for printers (laser printers can now cost less than \$5,000) and software that can translate a computer page to the printer.

Now, scanners selling for under \$2,000 are hitting the market. With these, desk-top publishers will be able to store large numbers of documents on computer disks without retyping them and to keep a library of frequently used drawings on hand.

Technology alone, albeit impressive, could not sell DTP. What got Weyerhaeuser to sign off on DTP was the bottom line, emphasizes Farley-Crisp. "The investment was very easy to justify, because we figured the payback pe-

riod would be less than a year," she says. Meanwhile, what sold her on going electronic was the fact that she mastered the equipment in half an hour.

"Basically, I wanted something that wouldn't have a steep learning curve," she says.

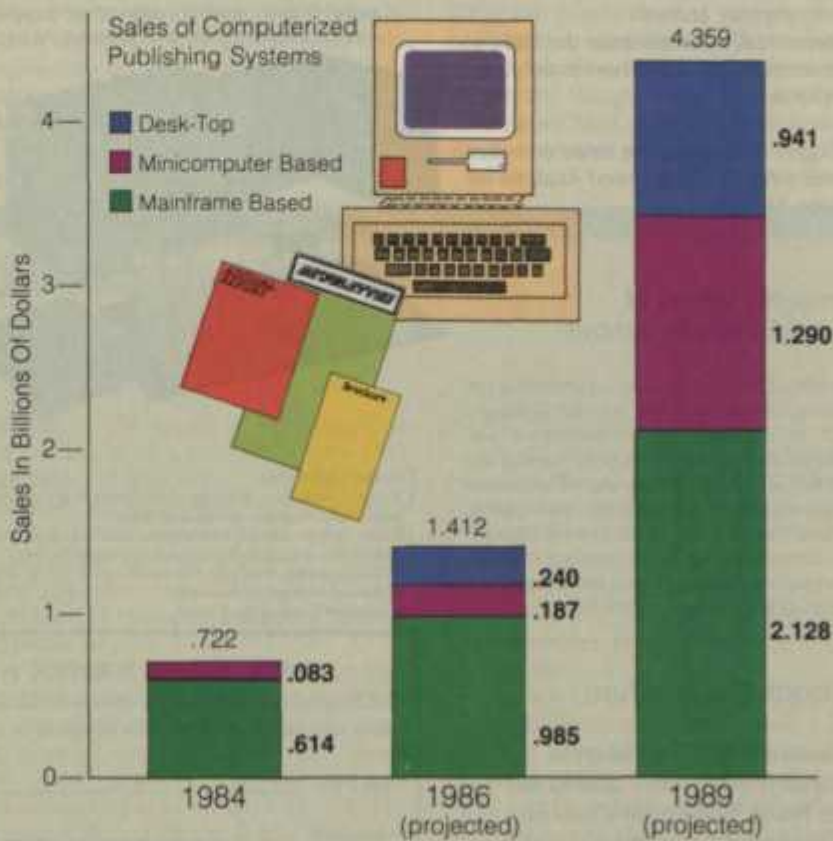
Illustrative of why electronic publishing can be well worth it is the experience of Marcam Data Systems Corpora-

the firm's chief technical writer, Joan Smith. But on Interleaf, "we went from start to finish in just four days at a cost of \$21 per manual or \$4,200 total."

But to Smith, the quality results were even more staggering. "Because I now have control over all phases of the process, I can make editorial changes up to the last minute, which leads to a much better quality product."

Instant publishing is often touted as

The Growing Desk-Top Publishing Market



tion, Needham, Mass. As a developer of management software for IBM minicomputers, Marcam produces reams of documentation for manuals. It bought a \$60,000 minicomputer system from Interleaf, Inc., Cambridge, Mass.

A routine job: assembly and publication of 200 copies of a 300-page manual. By conventional means, that would have consumed five weeks at a cost of \$15,200 or \$76 per manual, estimates

DTP's most significant advantage. Leslie Anderson, Interleaf's marketing manager, likes to tell the story of a client of the investment banking firm, Lazard Freres, that placed a \$70,000 ad in the *Wall Street Journal* only to have the bank strongly object to its contents hours before it was due to be printed. "The client ran back to the office and composed a new one on Interleaf practically minutes before the deadline," she

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About the Author . . .

Howard Raiffa has been at Harvard since 1957 and holds the Frank P. Ramsey Chair in Managerial Economics, jointly sponsored by the Graduate School of Business Administration and the Department of Economics. He is a frequent consultant to industry. As one of the outstanding pioneers of decision analysis, Dr. Raiffa has authored a number of major books on the subject.

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General Electric decided to raise prices, rather than increasing manufacturing capacity for a mature industrial product. As part

of the strategy, R&D expenditures were increased twentyfold, and the decision resulted in highly profitable sales of some \$20 million a year.

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SPECIAL REPORT

A Print Shop On Your Desk

Graphics artists at TechArt in San Francisco used Apple's Macintosh personal computer to draw and print this picture.



ILLUSTRATION: TECHART

says. That feat would have been impossible using traditional methods, she adds.

Similarly, Brainerd cites the case of an Aldus customer who received word of a huge government contract only days before the proposal was due. The customer managed to put together a 200-page document complete with diagrams and illustrations by working nonstop over a weekend. "For companies in such a position there is no alternative to electronic publishing," he says.

But a company does not need to buy and maintain an in-house system to derive the benefits. DTP is spawning the equivalent of the storefront printing shop where you can walk in with a computer disk and run a laser printout.

At Diane Burns' Tech Art in San Francisco, five personal computers, one laser printer and a few talented artists generate sophisticated graphics for 30 to 50 percent of the going rate. For local merchants that make up the bulk of her customers, that means affordable local advertising. "We are making

them flyers with text, graphics and borders for about \$25 a page—close to the cost of typesetting a page of text alone," she says. Not surprisingly, Burns reports "daily phone calls from people who want to learn how to start a small electronic publishing business like ours."

Richard Gordon O'Brien, cofounder with his wife Barbara Thomas of Thom-

as Gordon Associates, Inc., Miami, Fla., hopes to establish an electronic publishing franchise. Currently a test site for several products, including the latest technology from Kodak, Thomas Gordon offers the full gamut of electronic publishing services, from media conversion to book binding. O'Brien expects his ASAP Electronic Printing & Publishing Centers to form a "one-stop shop document service," he says.

Industry analysts say electronic publishing systems will become as ubiquitous in the office as the copier. Declining prices and a widening array of new capabilities such as color output will continue to keep old customers coming back and draw new ones into the fold.

And if the early success of DTP proves anything at all, it is that people are yearning for more, not less paper. What the forecasters of paper's demise neglected to consider was that someday people would want to transfer all the wonderful things done by black boxes onto paper that does not look and feel like a computer printout. ■

—Karen Berney

Assembling A Desk-Top Publishing System

As appealing as desk-top publishing is, you should not get carried away by its low cost and ease of use, warn experienced users.

DTP is only a tool, an extension of your own talents. You cannot buy good writing, design and artistic skills. If you want to take the plunge you will need about \$10,000 for the following.

- **A personal computer.** You will also probably need a hard disk for storage—electronic page composition chews up a lot of memory, particularly when graphics is included.

Until recently, DTP was primarily the domain of Apple's Macintosh personal computer (selling for between \$2,195 and \$3,290). With its strong graphics circuitry, the Mac is a natural for DTP applications. IBM PCs or compatibles require a graphics enhancement card, which adds hundreds of dollars to the price of the machine. Though programs are available to enable IBM users to merge text with graphics, there are many more options with Apple's Mac.

That is changing however. In mid-

February IBM launched an assault on the market with a number of new DTP products. At the same time, Apple introduced an upgraded Mac and laser printer. In addition to Apple and IBM, Commodore's Amiga and Atari's ST-520 have graphics capabilities and should command a strong following among software houses.

- **Software.** If you have a personal computer, chances are you are using it for word processing. Many of these programs, such as Microsoft Word, drive laser printers, although you cannot simulate pages on the screen before printing. To get WYSIWYG, the whimsical acronym for "what you see is what you get," and to mix words and images, you need to spend from \$100 to \$500 for a page layout program. If you have a bigger budget, there are special software packages just to make charts and drawings in black and white or color. There are clip art programs of pre-drawn illustrations for the user without drawing skills.

- **Laser printers and digitizers.** DTP owes much credit to laser printers,

which yield stunning-looking documents in any typeface you choose at about a 10th of the cost of traditional typesetting equipment.

The two most popular printers are the Hewlett-Packard LaserJet (\$2,995) and the Apple LaserWriter (\$6,995). Both print at a resolution of 300 by 300 dots per inch and a speed of eight pages per minute.

"Don't wait to get into desk-top publishing because you can't afford a laser printer," says Terry Ulick, editor of the trade magazine, *Personal Publishing*. With a personal computer and software you can create pages and take them to a service center for output on a laser printer at \$1 or less a page—still a bargain compared to typesetting, he notes.

Digitizers scan and store such images as photographs and artwork. The image can then be transferred to a screen where you can edit it, merge it with other information and send it to a high-resolution output device like a laser printer. Digitizers use either video or optical scanners and cost from \$200 to \$400.



Even Small Businesses Can Have Big Communications Problems.

How many times have you had a communications problem your present system just couldn't handle? Or, maybe you have problems and don't even know it. For instance, do you ever find yourself calling three to four people when one conference call could solve the problem faster and easier. Or how about trying to write while talking on the phone? A



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Customizing For Customer Service

The experts say technology can help a company move ahead in business competition, but only if a firm is creative in using it.

Larry Robbins shows off the touch screen computer system used by customers in his two Philadelphia area bookstores. The system compares

a list of customers' favorites with items in stock to suggest books that probably will appeal to them.



PHOTO: MICHAEL MALLER

Virtually every business in America is capitalizing on computers, from better communications, to better product design, to automating day-to-day operations. But when it comes to transforming that tool into a strategic weapon, industry experts say, most senior executives are lost. Even if they recognize technology's strategic value, they do not know how to steer it toward new market opportunities.

Leading analysts say it is time to take technology out of the office and factory and put it in the marketplace. "The U.S. business community has plateaued on the first application of technology. Everyone is using computers for spreadsheet analysis [for example], yet there are so many other potential applications waiting to be discovered," declares John J. Connell, executive director of the Office Technology Research Group, a Pasadena, Calif., association for senior U.S. and European managers.

Take the automobile industry. By analyzing census data, it could surmise which families are likely to be in the

market for new cars and target individual households with fancy brochures advertising automobiles appealing to their tastes and pocketbooks, Harvard Business School Prof. F. Warren McFarlan says. Yet "not once has such information ever crossed my desk," he says.

The problem, contends Peter Scanlon, chairman of the accounting firm, Coopers & Lybrand, "is that most companies are not set up to identify competitive uses of information technology, nor do they know how to organize to bring them to life."

The reason is that management's thinking is routine, he says. What is needed is a special corporate group, a high-creativity team that "will impose a new ideology so that systems aimed at putting your competition on the defensive are developed," he says.

Moreover, small to medium-sized companies are in the best position to take the initiative because they are not encumbered by huge investments in technology, maintains Scanlon. "I am working with many medium-sized companies that are doing things that the

biggest firms have never dreamed of," says McFarlan. One strategy calls for installing terminals on customers' premises for ordering products and providing advance notice of new ones. As a result, "these companies are going to become so friendly with the customer as to become the preferred supplier," he contends.

Smaller businesses also are less prone to bureaucracy, says Scanlon. And, since their top decision makers are closer to the action, they tend to perceive and act on an opportunity faster than their counterparts in large organizations.

Larry Robbins is one small businessman who has learned about the strategic value of technology. The owner of two Philadelphia area bookstores, Robbins says he was never impressed with anything technology had to offer until he encountered a computer system with the ability to help readers select book titles.

"When I saw how simple it was to operate and that it worked for me, I immediately submitted an application to the manufacturer to serve as a test site," he says. Robbins has the system up and running in both locations at a rental cost of \$300 a month, and estimates additional sales on the order of 5 to 20 books a week.

"The Bookseller's Assistant" is the brainchild of Harold Kester, president of the Delmar Group, a software house in San Diego. It embodies the knowledge of an experienced book clerk, he explains. In its advice mode, the system asks a customer which authors, movies or TV shows he or she likes, correlates that information with a database of more than 100,000 titles and then prints out a list of recommended books. Kester is now working on similar systems for video and record stores, car dealers and general merchandisers, including J.C. Penney.

To Robbins the key is that his shops are now different from the rest of the pack. "While the system cannot replace a topflight sales clerk, it has certainly opened up another access point between the store and the customer," he says.

Elizabeth Arden is another example of a firm on the forefront of technology

Customizing For Customer Service

application. Its innovation is an experimental system known as "Elizabeth," which allows a woman to sit in front of a video camera and have an image taken of her face. The picture is transferred to a computer screen where she can watch four images of her face be transformed into different looks by a makeup artist who applies the eye, face

and lip colors via a graphics tablet. At the end of the session, when the customer has decided which look or looks she wants, a printout listing the products and prices is generated by the computer and rung up by a sales clerk.

The system, which Elizabeth Arden plans to roll out in all its stores later this year, has three main advantages,

says Thomas Cook, the system's engineer at parent company Eli Lilly & Company. First, the customer learns how to apply makeup. Second, the artist can show the customer four contrasting looks in the half hour it usually takes to complete one on a customer's face. And, a woman can walk out of an Elizabeth Arden salon without makeup smeared all over her face. The upshot is "a much more satisfied customer spreading the word and expanding our market," states Cook.

Other examples:

- The Sherwin-Williams Company is using a paint analyzer that matches the color of a paint chip from a customer's wall with the right Sherwin-Williams product.

- E.S. Industries Corporation, Costa Mesa, Calif., is installing video terminals in supermarkets that, in addition to dispensing coupons, display pictures of merchandise and conduct check verification.

- Fizzaz, a New York clothing store, shows some of its wares in music videos on a 30-foot by 12-foot projection screen that covers the back of the store. It also has touch screen computers on the floor to let customers preview items in detail before they start to shop.

- Coopers & Lybrand has developed expert systems software for its corporate insurance clients that mimics the behavior of an underwriter and serves as an insurance vending machine. It designs, authorizes and issues a personalized policy on the spot.

The existence of low-cost computers "is spawning a lot of creative experimentation in all sectors of the economy because all businesses face the challenge of improving product distribution and communication in the marketplace," says Tom Rauh, a marketing analyst with the accounting firm, Touche Ross. Currently, slightly less than 30,000 commercially used terminals exist (excluding automated teller machines) that consumers can activate for information and services. But by 1990, that number will reach 70,000 and account for between \$3 billion and \$5 billion in retail sales, Rauh projects.

Indeed, "we have only seen a modest amount of technology applications in the market," asserts Coopers & Lybrand Chairman Scanlon. For businesses that do not adopt technology as a strategic weapon, says Scanlon, "I can only predict one thing—obsolescence." ■

—Karen Berney

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Innovators

Making salespeople feel valued; a new twist in market research; knowledgeable stars; bonanza in loneliness.

By Sharon Nelton

Psychological Hugs For Employees



Make your salespeople feel good, and they will make your customers feel good.

That's the advice of Francis Loeb, managing director of Loeb AG, a department store chain in Berne, Switzerland.

One of his techniques is an operatic serenade to employees. He described that and other approaches to improving morale in a talk at the recent 75th annual convention of the National Retail Merchants Association of the United States.

Among the methods his company uses to make employees feel valuable:

- An annual "theater day" is held for all employees, who dress in costume for a riverboat ride.

Says Loeb in his charming Swiss-German accent: "I have the possibility to go down on my knees before a salesperson and sing him an opera song. How else could I do this but in costume?"

Pictures of Loeb serenading an employee become a popular souvenir of the event.

- Representative sales clerks are invited to air problems at meetings of the

chain's general managers. Not only do the employees benefit from letting off steam, but "we learn a lot," Loeb says.

- An annual celebration dinner is held to recognize employees who have contributed to a suggestion box in the previous 12 months.

- Each member of the sales staff is invited to name his or her best customer each year. That individual is sent a cake in the salesperson's name—but at the company's expense.

- Employees are given a day off on their birthdays—plus a piece of birthday cake from the company restaurant.

- Retired salespeople are asked to join a quality circle, where active workers can gain the benefit of the retirees' experience.

- Loeb is often at hand to open the door and bid goodnight to workers who have been on duty during some of the less desirable work periods—Saturdays and nights.

Whatever the specific techniques of making employees feel valued, they must reflect genuine concern for the employees. As Loeb sums up, "It must come from the heart."

What The Customer Needs

Conventional wisdom holds that the key to business success lies in first determining what new products or services a customer would buy, then filling that need. Milton C. Lauenstein, a business executive who has strong academic credentials, challenges that accepted view.

"There is danger in offering only products that customers say they will buy," he says. "All of the suppliers are asking the same questions and getting the same answers. They develop similar products and are back on the same old treadmill."

Lauenstein explains: "Determining what customers will buy is not so simple as just asking them. Often, they do not know or will not say. The outstanding business successes usually result from suppliers' seeing needs which the customers themselves may not recognize."

Lauenstein was president and chief executive officer of Ventron Corporation, a smaller company in the chemical industry, earned a master's degree in business administration at the University of Chicago and taught business policy there, and is now president of Lauenstein & Associates, Inc., a management consulting firm.

At Ventron, he says, "I began to see more clearly some of the problems top management faces. I began to see why the usual approaches to strategic planning have proved to be useless or even counterproductive." The result was his recently published book, *What's Your Game Plan?* (Dow Jones-Irwin, Homewood, Ill., 1986).

In discussing market research, he offers this episode: "When the technology to produce dry copiers was first developed, the market for them did not exist. Asking companies how many they would buy was futile. As a result of accepting the approach of supplying only recognized market needs, company after company turned its back on the technology. Finally, little Haloid Corporation saw the potential, bought the technology and turned itself into giant Xerox Corporation."

The Well-Versed Celebrity

Celebrities in television and radio commercials should be as well matched to the products they are featuring as they would be to a part in a regular program, in the view of a Hollywood team that specializes in finding talent for the commercials.

Sandra L. Joseph and Brian Rix of Joseph, Heldfond & Rix say that a business paying the hefty fees required to have major celebrities star in its commercials is entitled to more than just a pretty face or someone who simply reads a script.

Joseph and Rix have brought stars and products together in combinations familiar to much of America. They matched Mariette Hartley and James Garner with Polaroid, Mark Harmon with Coors Beer, actor Judd Hirsch with Yoplait yogurt, Pernell Roberts with Polonari Wines, and Karen Grassle, the mom of "Little House on the Prairie," with a cookie product.

A newer combination features Hartley and Celestial Seasonings herbal teas.

Joseph and Rix try to protect their clients from campaigns that might have undesirable side effects. "I can't mention the actor's name," says Rix, "but we've talked a major star out of doing a supermarket commercial for over \$1 million because we felt it would be detrimental to his career."

A campaign that is wrong for one actor may be just right for another. Pitching washing machines might not be right for a rising young star, but just the thing for a character actor.

The Celestial Seasonings campaign appeared to be the perfect follow-up to Hartley's Polaroid commercials. "We wanted her to be doing something very classy—something with humor and style, so people would like what she was doing and would still respect her the way they did before," says Joseph.

However, when celebrities are signed to do a campaign and not just a single commercial, says Joseph, they need to be prepared. "They need to know what they're trying to accomplish, not just learn the words."

A campaign can involve not only broadcast and print advertising, but also appearances at sales meetings and conventions. When Mark Harmon goes to mingle with beer distributors, she



says, they want to hear about Hollywood. "But they also want to know that he cares about them." And, she adds, the star *should* care.

Hartley was familiar with Celestial Seasonings because she drinks the teas and keeps them in her home, according to Joseph. Nevertheless, the agency provided her with background on the tea business and coached her on the

company's positioning in healthier, no-caffeine teas.

Not only does she better understand what the company's aims are when she does the commercials, but, says Joseph, "when she goes to a wholesalers' convention and she goes to meet distributors, she can make them feel that she really is out to help them. And they get enthusiastic and sell more tea."

Profiting From The Loneliest Number

Alvin Toffler, another speaker at the National Association of Retail Merchants convention, may have the business idea of the decade. Toffler, noted for such books as *Future Shock* and *The Third Wave*, says: "Anyone who figures out how to reduce loneliness is going to make a billion dollars."

Loneliness, he says, "is a bomb ticking away in our society. It is the single most widespread epidemic." His predic-

tion: Loneliness will increase with the "demassification" of the marketplace, as we move from an era of mass-produced products that treated people much the same to an era of "micromarkets," in which products are increasingly customized for smaller and smaller groups of people. The more individualized people become through this process, he says, the more our loneliness will be intensified.

To Your Health

Being well means more than not being sick. It depends partly on attitude. Here are five steps to wellness.

By Judith A. Webster and Vicki A. Moss

Dan S., a corporate health planner, took charge of his health by cutting out three-martini lunches. Now he sips orange juice and finds he makes better decisions in the afternoon. He has not only eliminated an unhealthy behavior from his life; he also finds he has more credibility when promoting his corporate health programs.

Bob B., a regional manager for a department store chain, looks for hotels that offer exercise facilities when he makes reservations. That helps him keep up with his physical fitness program when he is away from home on business.

Dan and Bob both have learned that managing their health to achieve a high level of wellness is like managing a business. Just as an executive takes steps to ensure that a business is successful, individuals must take steps to promote their own wellness.

"Health" means not being sick, but "wellness" means that being healthy is not enough, and high-level wellness goes far beyond the absence of disease. It means an enthusiasm for living, feeling good about yourself, and having goals and going after them.

Donald A. Ardell, a wellness consultant at the University of Central Florida in Orlando, says there are five dimensions to wellness: taking responsibility for yourself, nutritional awareness, stress reduction and relaxation, physical fitness and sensitivity to the environment. Here are some ways to incorporate these elements into your own life.

- **Self-responsibility.** This is the key to high-level wellness. It means taking charge of your life and knowing that you—not your doctor or the hospital—are accountable for making choices to facilitate your own health. Identify high-risk behaviors in your lifestyle. Stop smoking. Wear seat belts. Drink alcohol in moderation.

- **Set wellness goals.** Sign a contract with yourself to reach your objectives, just as you would sign an agreement with a business associate.

- **Nutritional awareness.** What you

Walking to work is a good way to get exercise. The added oxygen in your system should improve your performance and outlook.



PHOTO: SUSAN MUNK

eat is important in determining health and longevity. Life expectancy is reduced one year for every 10 pounds of excess weight. And no wonder. For every extra pound of fat, your body must grow five miles of blood vessels, putting an extra strain on your heart. Obese individuals have 3.5 times more chance of suffering a fatal heart attack than do people who maintain desirable weight.

Select salad and soup for lunch instead of a steak sandwich and french fries. Don't skip breakfast. Limit salt. Order poultry or seafood to decrease fat intake. Sally T., a wholesale glassware distributor, chooses fresh fruit instead of candy bars for her afternoon break. She has lost seven pounds in the six months since she changed her snacking patterns.

- **Stress management and relaxation.** Too much stress weakens the body and mind, leaving you more susceptible to disease. Schedule some time for yourself each day to do something you like, rather than what you have to do. Do what makes you happy.

Buy a relaxation tape and play it on

your next flight to a business meeting. Take two or three deep breaths before answering the phone. Put your feet up at least twice a day. Allow yourself to express emotions like joy, fear and anger. And remember that it is O.K. to ask for help. Do not be afraid to laugh, especially at yourself. Like exercise, laughter releases endorphins, the body's natural painkillers.

The love and support of friends and others important to you is also vital in dealing with stress. Interact daily with those who make you feel good.

- **Physical fitness.** Most of us equate fitness with exercise. It also means lower body weight and increased strength, flexibility and endurance. It is the closest thing to an anti-aging pill that we have. Walk to work in comfortable shoes. Take stairs instead of the elevator. Schedule stretch breaks during long meetings. Pack your workout gear for business trips.

Schedule exercise time in your appointment book as you would schedule a business meeting. And do not let it be pushed aside.

- **Environmental sensitivity.** Are your surroundings a positive or negative influence on your life? You need not only to be aware of your environment, but to enjoy it as well. Add plants or a piece of artwork you really like to your immediate work area. Play classical music at work to calm tempers, clear thoughts and increase creativity.

Get away from everything periodically and place yourself in a new setting. One office manager takes a "day away" at a nearby beach during nice weather. Doing monthly reports does not seem so bad when he can sit in the sand and enjoy the sun as well.

Take an "entrepreneurial" approach toward your health, testing out new ideas and activities. Try jogging with friends during your lunch hour. But if they leave you in the dust, don't strain to keep up. Try a solitary run, or get slower friends. Discard what does not work for you and try something else. Be realistic and, above all, have fun.

Do not think you can never eat another hot dog or piece of chocolate cake again. It is what you do 80 percent of the time that counts. Although the wellness lifestyle is tempered with moderation, it also means a zest for living. ■

Judith A. Webster and Vicki A. Moss are both registered nurses and wellness consultants in Green Bay, Wis.

Making It

New Generation Of Energy

In 1978, Congress passed the Public Utility Regulatory Policy Act, better known as the PURPA law, to nurture a new kind of electric utility industry run by small business. The PURPA law creatively encourages entrepreneurs to use alternative energy sources to reduce dependence on fossil fuels.

"We happen to be lucky because we're in a unique industry that has a lot of potential and has barely gotten started," says John Kuhns, president and chief operating officer of Catalyst Energy Development Corporation. Headquartered on Wall Street, but with a growing number of offices across the nation, Catalyst is a fast-growing new firm created specifically to take advantage of the unique entrepreneurial opportunity offered by PURPA.

In the first three quarters after its December, 1984, initial public stock offering, Catalyst more than tripled its income. Revenues were \$23 million compared with \$7 million during the same period of 1984.

Catalyst is a textbook case of a company designed to exploit a law. PURPA required large utilities to purchase the energy output of the entrepreneurial companies at what is called their "avoided" cost, the cost they would otherwise incur by burning oil or gas. The law further exempted the alternative energy companies from many regulations.

Despite these legislative advantages, Kuhns knows from experience that an uphill battle faces any small competitor. As a college senior, he captained the Georgetown University football team and entertained fantasies of becoming a pro football linebacker. He was told, though, that he was too small at 5 feet 10 inches.

Moving instead to the business world, Kuhns became an investment banker at the large Wall Street firm of Salomon Brothers in 1977. As the new kid in the office, he was given the job of arranging the financing of construction projects for smaller utilities.

In 1980 Kuhns left Salomon Brothers

Catalyst President John Kuhns (left) harnessed a federal law encouraging small companies to develop alternative energy sources. He and

Stuart Temple examine a Baltimore steam and distribution system.



PHOTO: T. MICHAEL KEZA

to form a small investment banking firm, James J. Lowrey & Company, Inc., in partnership with Lowrey, a former Salomon Brothers partner. In this new job he continued to arrange finance packages for small utilities. Catalyst, founded in January, 1982, grew out of the Lowrey partnership, and Lowrey is chairman and chief executive officer.

Catalyst moved quickly to exploit PURPA. For example, at Overlook Hospital in Summit, N.J., Catalyst built a \$3.5 million power plant that uses solar heat to burn the hospital's garbage. Catalyst sells the steam and hot water to the hospital for its use and generates electricity to sell to the local utility.

"We have nine other plants operating around the country now," says Kuhns. "Our largest to date is a \$40 million cogeneration plant in Bakersfield, Calif." Cogeneration is the simultaneous production of two forms of useful energy from one form of fuel. Typically, utilities have some gas turbines for peak hours because they can be fired up quickly. But they are wasteful; about half the useful energy is lost.

"This is one of the things Congress was adamant about," says Kuhns. "We just had to stop this. What you can do is run the waste heat through a condensing boiler and get steam to use directly in an industrial plant, or run it through another steam turbine and get more electricity. Cogeneration can be accomplished with natural gas, coal, wood waste, municipal garbage and other alternative fuels."

Catalyst facilities are now located in Maine, New Hampshire, New York, New Jersey, Maryland, Nevada and California, and the company is positioned to capitalize upon a bull market in alternative energy. By the year 2000, Kuhns predicts, every large municipal power generation facility.

"What you are going to see," Kuhns predicts, "is a complete change in the utility service thinking in this country."

"The real key to our business is that you have to be a good developer. You have to put a deal together each time. Big utilities aren't really good at that; that's really a job for an entrepreneur."

—William Hoffer

High tech and high rollers—entrepreneurs stake their futures on automated teller machines, steam generators and lucky encounters at prize-winning stables, where the winner takes a foal.

Matchmaker For The Horsey Set

Matchmaker Chairman and President Barry Weisbord auctions stallion shares to mare owners hoping for racetrack winners.

Barry Weisbord knows how to seize an opportunity. He parlayed an enthusiasm for the race track into a business that did more than \$61 million in trading during the first year.

Further, Weisbord, 35, has made the horse business, shall we say... more stable?

Before he began his "Matchmaker" businesses 15 months ago, thoroughbred horse breeding deals were conducted more or less informally—there were no rules, and there was no simple way to go about it.

But Weisbord's three-in-one business brings order to the chaos. Matchmaker auctions sell breeding opportunities twice a year, Matchmaker Breeders' Exchange posts opportunities weekly by computer, and Matchmaker Financial Corporation lends money to people buying stud service.

In the old days, if the owner of a perky little mare wanted to breed her to a proven money winner such as Northern Dancer, he had several options. He could ask an agent to track down one of the horse's several owners to see who could sell one night with Northern Dancer (this is called a "season"). That agent might know another agent who knew an owner, but after a couple of phone calls the first agent would learn that the second agent was skiing in Vale. Once the second agent was found in Vale, he might say, yeah, he knew the owner, but the "season" was already sold. Or the owner was out of town, but the agent would try to find him and see if he was interested.

Fifteen telephone calls—and many days—later, the deal could be set up, says Weisbord, only to have the owner increase the asking price. Then the phone calls would start again.

All breeding deals took time, took luck and depended on a good-old-boy network that could break down at any point in the deal.

Only recently have thoroughbreds become more business than hobby, says Weisbord. And "most people involved in the horse business are really in other



PHOTO: PATRICK PHOTOFEST—PICTURE GROUP

businesses," he says. "I thought if I could save them time and money, it wouldn't take a very hard sell job to make people want to play."

In November, 1984, he started his Matchmaker sales at Keeneland Race Track in Lexington, Ky., using an auction format with the same auctioneers who run the brood mare sales the following day. Keeneland brood mare sales are probably the biggest in the world, and virtually everyone in the thoroughbred horse business comes to Kentucky for them. People are in the mood to buy horses, and since they come to buy mares, they might look for stud services as well.

Weisbord auctions seasons (one opportunity to make the mare pregnant) or shares (a lifetime of opportunities to impregnate the mare). He takes a 4 percent commission from the seller—not bad when a cool million was paid for an encounter with Northern Dancer.

Before Weisbord came along, it could take months for a stud owner to get paid for the stallion's services. After Matchmaker's January, 1985, auction, everybody was paid, and the checks

cleared within 30 days. "We're probably paying people twice as fast as they get paid anywhere else," says Weisbord.

But the auction was a temporary solution, says Weisbord. Trading occurs all year, and even with biannual sales (November and January, always scheduled the night before Keeneland brood mare sales begin), inefficiency plagued horse breeding arrangements.

So he started Matchmaker Breeders' Exchange—a club of 700 members who have access to a weekly computer listing of seasons and shares for sale.

All dealings are cash. Weisbord's commissions are split by buyer and seller, beginning at 4 percent for the least costly deals and dropping to 2½ percent for deals over \$500,000.

If the dealer cannot come up with the cash to pay for the stallion share, Weisbord has the answer. The Matchmaker Financial Corporation lends 60 percent of the asking price at an interest of prime plus one and a few closing costs.

Weisbord's newest venture is a computerized list of results of American-bred horses in European races. Next, he plans to make horse insurance as systematic as horse breeding. "This is fun," he says. "This is a great business."

—Sarah Fritschner

Growing Niche In Teller Machines

When Charles Caserta and Frank Pasquito decided to go into business in 1981, they flipped a coin to see who would sell his car to pay for their advertising brochures.

"I'll never choose heads again," laughs Caserta now, recalling his 15 months without a car. As one of the founders of Avant-Garde Computer Systems, Latham, N.Y., Caserta not only has another car, but he and Pas-

PEOPLE

Making It

Growing Niche in Teller Machines

Charles Caserta (left) and Frank Pasquito isolated a market in the automated teller field.



PHOTO: GARY DAVID GOLD

cuito are riding high with an enterprise expected to have sales of \$2.5 million in 1986.

Avant-Garde markets the increasingly popular automated teller machines and their customized software. Working closely with large ATM hardware manufacturers, primarily NCR, Caserta and Pasquito service smaller financial institutions, supermarkets and projects requiring more specialized software programs. They develop the complicated means by which an ATM communicates with the financial institution's database, and they oversee an institution or company's conversion to the machines.

Avant-Garde's 25 employees have installed 1,500 ATMs in more than 150 banks in 26 states and in supermarkets around the country. They handle all of NCR's ATM sales in Canada, and are negotiating or working on projects in Colombia and Sweden. Most recently, Avant-Garde won a \$535,000 contract to automate a Saudi Arabian bank.

"We do all facets of converting a bank to ATMs," explains Caserta, 29. "We sell the hardware; write the pro-

grams; get the cards produced, encoded and mass mailed to customers; and can even provide a promotion package including radio and TV ads. We also do the site preparation, installation and training, and offer a follow-up maintenance contract.

"We do all the crazy stuff, the complicated software programs the big guys like NCR don't want to handle. It's a nice marriage for us."

Operating at first out of a small apartment, the two have seen their operation grow steadily from their modest, first-year profit of \$29,000.

Not bad for a guy who, as Caserta admits, "didn't even play Pac Man in college." Pasquito, also 29, did have computer experience and had designed ATMs for NCR. He was working for the ATM division of Convey Companies, a Dayton software consulting firm, when he met Caserta. The two decided they could offer software expertise for ATMs. "We knew there was a market out there," Caserta says.

After getting established and developing a working relationship with NCR, the two sold a piece of their company to

raise \$250,000 in venture capital. They used the money to buy the ATM Division of Convey Companies, expanding their client base. They opened a Dayton office strictly for research and development and bought a telex and facsimile equipment so they could move into the international market.

With less overhead than a larger firm, the company can develop the needed programs and techniques faster and cheaper, Caserta maintains. The company is hoping to raise \$1 million in venture capital to finance expansion.

"Growth is expensive," notes Caserta. "We need the money so we can hire more people to handle the business that's coming in. Our business is all based on reputation, so we have to be sure we can fulfill any projects we undertake. Despite our rapid growth, we have tried to do things as conservatively as possible. When you don't perform, the word gets out quickly."

Avant-Garde is moving into electronic funds transfer, and Caserta sees that as the wave of the future.

"People will use cards for cashless transactions," he predicts. "Many common consumer services such as getting gas, buying groceries or airline ticketing will be done by machines resembling ATMs."

—Cecilia Blalock

A Lease On The Future

Young John Simourian and his father (also named John) were sitting around one evening talking about John's new truck leasing business. It came time to pick a name. "Why not name it after your mother?" the elder Simourian suggested. "That's a good idea," young John said. "Why not?"

It was 1958. What is now Lily Truck Leasing Corporation, a thriving company that leases more than 2,600 trucks and grosses about \$42 million a year, was born.

Lily. Not exactly a macho name for a business with a macho image. But even though it was selected nearly three decades ago almost as a lark, it has today

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Lease On The Future

proven to be a major advantage for this growing firm headquartered in Boston and serving customers in New England, New York and New Jersey.

"I thought it would be a kind of fun thing to do," Simourian says today. "I didn't really think a whole lot about it."

But in 1973, when Simourian decided to do some advertising, "the firm we went to wanted to do some research on our name. They didn't think it fit." Simourian adds: "But after they thought about it, they came back to me and said it was terrific."

Thus, Lily's distinctive red logo was developed, as was its slogan: "We'll mother you." That line fits Simourian's business philosophy, which he says is one of the main reasons the company has prospered.

"It makes us unique. It makes us stand out," Simourian explains. "People respect the name. Most of the people who do business with us know the company is named after my mother. It emphasizes the right qualities, the ethics—sincerity, responsibility, commitment, integrity, caring, sensitivity—all those things your mother tries to teach you when you're a little kid."

Today Simourian's company has the moral support of his parents. Lily's photo appears in some of the firm's promotional materials.

In the beginning, however, it was Simourian's father, operator of a for-hire trucking company since the early 1940s, who really got his son in business.

"In 1958, one of his customers wanted to lease a tractor to run to Chicago," Simourian recalls. "My father told me he didn't want to go into the leasing business, but he said, 'Why don't you do it? Why don't you set up a company? I'll help, but it will be yours.'"

So young Simourian, who had been a football and baseball star at Harvard, used some savings from a brief career in semiprofessional baseball to purchase a tractor. His father provided the trailer.

"We did a test run for our client for four months. The operation was so successful that the client signed a three-year lease—my first long-term lease."

Simourian was 23 then and in the Navy. When he finished his tour, he went to Harvard Business School. While he was there, his father pur-

Behind this successful man is his mother. At the suggestion of his father, John Simourian chose his mother's decidedly feminine name,

Lily, for his truck leasing company, because of the qualities of motherhood it suggested to customers.



PHOTO: LILY TRUCK LEASING CORPORATION

chased a large interstate company, Pioneer Transport Lines, in 1961. After graduation, young John went to work for Pioneer as a salesman. He continued to run Lily, too.

But in 1965 Simourian decided to get serious about his leasing operation. "I lost the first 60 bids I put out," he says. "Then in December, 1965, I won five or six contracts in a row that added up to over 100 trucks."

Through those early years, Simourian's plan was to grow slowly, internally. Since the purchase of a small leasing operation in Rhode Island in 1977, expansion has come from several purchases that have resulted in dramatic

increases in the company's fleet and service capability.

Today, Lily Truck Leasing Corporation is planning to expand beyond the Northeast and become a national firm. Simourian believes the opportunities are there.

"The transportation business is very complex," he says. "You can only be an expert in so many areas of your business. As a result, more and more businessmen are deciding that by leasing their trucks they can eliminate maintenance and personnel headaches and conserve the cash needed to invest in rolling stock."

—Bob Gatty

For Your Tax File

By Gerald W. Padwe, C.P.A.

Last chance to take a quiet casualty deduction; investments that allow deferred capital gains; the IRS cleans up its act.

Claiming A Casualty Deduction

Did a friend run the family yacht aground off Cape Cod? How about the ski chalet in Aspen—was it broken into? Or did your teen-ager crack up the family car for the third time? If you were insured, did you file a claim with the insurance company?

If you did not, and you took a deduction for a casualty loss on your tax return (or plan to for 1985), the current state of the law says that's O.K.

But watch out for a little-publicized provision in the House-passed version of the tax reform bill now awaiting action by the Senate. In the future, you may have to rethink your decision not to file an insurance claim.

Up to a couple of years ago, it seemed fairly clear (and certainly it was the position of the Internal Revenue Service) that if you had a casualty loss but did not file an insurance claim, you could not take a tax deduction on your return.

But that was before several courts decided to change the rules.

In one case, a friend ran a taxpayer's boat aground. Damages were less than \$1,000, and the taxpayer was able to collect \$200 from his former friend. He claimed an additional \$500 casualty loss on his tax return.

Another taxpayer's vacation home was broken into, and about \$600 worth of property was stolen.

In neither case did the taxpayer file a claim against his insurance company. They apparently were concerned that their policies would be canceled or their premiums raised. The courts held that, because the taxpayers did not receive any money from the insurance companies and had suffered economic losses, they could deduct those losses on their tax returns.

The House version of tax reform would change that. Buried in Title X of the bill is an amendment to the Internal Revenue Code providing that any tax deduction for a nonbusiness casualty loss to insured property may be claimed only if the individual files a timely insurance claim.

If you plan to wreck your boat, do it this year. New tax laws may require you to file an insurance claim in order to list a casualty deduction on your 1987 return.



PHOTO: S&P BRUNN-FOLIO

Business losses would still be deductible, claim or no.

Because this proposal only confirms the old IRS position, it would not be surprising if the Senate kept the provision in its version of the reform bill later this year. If a tax reform measure passes in 1986, many provisions may not be effective until 1987.

The ideal planning technique, therefore, is to be prescient enough to have all your future casualty losses this year while there is still time for the IRS to help subsidize them.

Your insurance company need never know.

Deferring Capital Gains

Among a number of tax provisions that expired at the end of 1985 was one permitting investors to defer recognition of up to \$1,500 a year (\$750 for singles) of dividends received from public utilities.

If an investor took those dividends in company stock rather than cash and did not dispose of any stock for a full year, no income would be recognized from the dividend. If the new stock were sold after a year, the entire sales price would be taxable as a long-term capital gain. Unless Congress extends the provision, this provision ends. But investment vehicles offering similar tax opportunities are still available. A few public utilities offer two classes of common stock, one paying cash dividends and the other paying stock only. If the company falls under certain transition rules, there will be no taxable income on dividends paid in stock through Dec. 31, 1990.

Under existing tax rules, the funds can exclude 85 percent of the dividends from their taxable income (although they may be more vulnerable than other corporations to a penalty tax on accumulated earnings). The funds make no distributions, but since they continue growing, appreciation in value should ultimately be reflected in capital gains from higher sales prices.

An End To Frustration?

A recent General Accounting Office report confirms that last year's adverse publicity about IRS centers (especially the one in Philadelphia) was not all smoke. It says most of the blame for delays and document losses rests on inadequate computers and staff.

Slow return-processing, from the government's point of view, was the most expensive problem of 1985. Delays

in making refunds cost the government millions of extra dollars in interest (by mid-October, 56 percent more in interest on overdue returns than at the same point in 1984).

Commissioner Roscoe L. Egger, Jr., has assured Congress and the public that taxpayers can anticipate a smoother and less frustrating tax filing season over the next months.

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Curb Bulk Mailings From Congress?

Congress has budgeted \$144 million for members' mass mailings—a 70 percent jump from last year. Critics argue for more modest use of the franking privilege, citing the large spending cuts needed in the fiscal year beginning October 1 if Congress is to comply with the deficit ceiling imposed by the Gramm-Rudman-Hollings law. Others say such outlays are a necessary cost of an informed electorate. Should Congress cut spending for members' bulk mailings?

2. Taxpayer Subsidies For Congressional Elections?

Using tax money to pay for congressional candidates' political campaigns is being considered by a Senate committee. Advocates say such subsidies would eliminate superiority in financial resources as a factor in election outcomes. Foes say government funding would infringe on citizens' rights by (1) in effect, forcing taxpayers to support politicians they oppose and (2) ending one form of participation in the political process—contributions to the congressional candidate of your choice. Should taxpayers' money be used to pay for congressional candidates' political campaigns?

3. Screen Employees For AIDS?

Employers are receiving mixed signals on acquired immune deficiency syndrome. San Francisco forbids employers from discriminating against those who may have AIDS. But one Wisconsin school district bars students or teachers with the generally fatal disease from school. Employee tests are urged as a means of curbing AIDS' spread. Opponents say evidence, so far, indicates it is spread only through blood transfusions, sharing contaminated needles or sexual acts. Should employers have the right to screen current or prospective employees for exposure to the AIDS virus?

Verdicts On Tax Bill, Natural Gas, Tolls

Here is how readers responded to the questions in the January issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress enact a tax bill that could hobble economic growth?	31%	56%	13%
Should price controls on natural gas be ended?	78%	15%	7%
Should tolls on one road be used to pay for others?	32%	60%	8%

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COMMENTARY

Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Tax Reform/Simplification	Tax reform legislation now under congressional consideration, especially the House-approved bill, would significantly increase business taxes and, thereby, dull U.S. industry's competitive edge. Tax increases would harm economic growth by increasing the cost of investment in plant and equipment.	Members of the Senate: Tax reform should foster economic growth and improve the competitive position of U.S. industry. Legislation approved by the House does not achieve these objectives. Congress should set aside tax reform proposals and concentrate on reducing federal spending.
Deficit Reduction	Reducing the federal deficit without raising taxes will enhance economic growth and reduce government competition for available capital. Huge deficits affect financial markets and, thus, influence business decisions.	Members of the House and Senate: All government programs must be re-evaluated in order to reduce government spending and produce a balanced budget by 1991, as required by the Gramm-Rudman deficit control legislation.
Product Liability	Inconsistent product liability laws increase the costs of insurance and litigation. Although judgments might vary, costs could be reduced if all courts operated under uniform rules.	Members of the House and Senate: Enact one set of product liability rules for state and federal courts. Businesses and consumers need congressional clarification of product liability law.
Comparable Worth	A comparable worth study of the federal work force, recently approved by the House, could be the first step in subjecting business to a pay system based on an arbitrary evaluation of the "worth" of a job. This system assumes that bureaucratic job evaluators can better determine wages than employers and the marketplace.	Members of the Senate: Oppose imposition of a comparable worth pay system on workers and business. This subjective determination of wages would disrupt the labor market and increase the cost of doing business. The inconsistent judgment of outside evaluators must not be substituted for the market place or allowed to counteract advances in merit pay and promotion systems.
Superfund	The amount and the source of funds authorized for the hazardous waste cleanup program, Superfund, could substantially affect business. The House has approved expenditures of \$10 billion over five years, financed by crude oil and chemical feedstock taxes, a new waste management tax and general revenues. The Senate has approved \$7.5 billion over five years, financed through a new manufacturers' excise tax.	Members of the House and Senate: Urge the conference committee on Superfund to approve reasonable funding levels for the necessary cleanup of hazardous waste sites and the use of general revenues, the most equitable and broad-based source of funding. Oppose new or increased taxes on business to finance the program.
Polygraphs	Legislation has been proposed that would prohibit use of the polygraph by the private sector. The polygraph is an essential tool for an employer, not only for pre-employment screening but also for investigating workplace incidents. It enables businesses to cut losses and, therefore, control costs effectively.	Members of the House and Senate: Oppose this legislation. Support licensing of examiners, guidelines for administering examinations and state regulation of the polygraph industry to help to assure responsible use of this important tool.

Philosopher Of Capitalism

By Susan Ager

The head of Herman Miller, Inc., believes in innovation not just in his company's products but also in its approach to its people.

The 1985 report of Herman Miller, Inc., reflects a company whose esprit pivots around an old-fashioned conviction of Chief Executive Officer Max De Pree: We are all uncommon.

The report's covers and first 22 pages, more than half the total, are lined with tiny, full-length photographs of 2,900 of the 3,265 men and women who work for the international office furniture corporation. Many of them are hugging it up. Others are hugging each other. Some pose with umbrellas or bicycles or standing on one of Herman Miller's ubiquitous molded fiberglass chairs, of which there are some 5 million in the world today. One woman wears a grocery bag over her head. One man is standing on his hands. The 6-foot-4-inch De Pree rates no bigger picture than anyone else.

"Say hello to the owners!" says the report's cover, a reference to a three-year-old profit-sharing plan De Pree spearheaded. It awards shares of the company's well-performing stock to employees with at least a year's seniority.

"Let's face it," says creative director Stephen Frykholm of the report, "it was a little kooky, but Max liked the idea from the start." That is because, besides being one-of-a-kind, it captured for shareholders to see an idea he learned very early in life, growing up in rural and religiously conservative Zeeland, Mich.

"Our religious beliefs," says De Pree, 61, a member of the Dutch-founded Reformed Church in America, "include the conviction that each of us is made in the image of God. And if that's true, then you cannot make the assumption that some of us are uncommon, and some of us are common. If we are all made in the image of God, we are all uncommon. From a leadership perspective, that is a challenge that has to be responded to."

De Pree's response is to give his employees not only the tools and inspiration they need to get the corporate job done, but also to allow them to enjoy their work and find meaning in it. Then they will innovate—and Herman Miller

Max De Pree (left) and Wayne Brower, director of corporate business systems, in front of Herman Miller's own corporate Action Office, the open

floor plan that revolutionized office space planning when it was introduced.



PHOTO: RICHARD DEWE

has been innovative from the '30s, when it hired Charles Eames to design chairs.

Those convictions run in the De Pree family, which means they have run through Herman Miller since D.J. De Pree bought a small furniture company in 1923 and named it after his father-in-law. It is still headquartered in Zeeland (pop. 4,700) and has become the town's largest employer, by far.

Max has worked for his father's company since high school, as a janitor, an upholsterer and in other factory work. He had no dreams of a career there—it wasn't much, really—and wanted instead to be a medical doctor. But World War II interfered, and when he returned from the army, "I didn't have any stomach for more school. I wanted to get married and go to work." He married his high school sweetheart and, against his father's advice, went to work for Herman Miller in 1947, when the company did only \$400,000 in sales annually, or less than 1/1000 its current volume.

All three De Prees who have led Herman Miller (first D.J., then eldest son

Hugh and now Max) have envisioned the company as a design leader, not necessarily a market-share leader (it is second to Steelcase in sales and profits), and a good place to work rather than merely a job. In 1950, for example, long before participative management became the rage, Herman Miller adopted the Scanlon Plan, which created "work teams," monthly work team meetings and a bonus system that rewards employees whose divisions exceed their goals.

Since Max De Pree became CEO in 1980, corporate sales have increased 114 percent, from \$230.3 million in 1980 to \$491.9 million last year, while the number of employees has risen only 20 percent. Although it sells to diverse markets, including hospitals, its overall market share has increased 17 percent in five years. Since 1980, the company has opened manufacturing plants in England (where there are now two), France and Roswell, Ga., and a facility in Grandville, Mich., near Zeeland, which features a Herman Miller showroom and museum. Within

Susan Ager is a Detroit Free Press staff writer.

LESSONS OF LEADERSHIP

Philosopher Of Capitalism

De Pree concerns himself with employees like Margaret Boes, who participates in a company exercise program for heart patients.



13 months recently, the company introduced two new product lines:

One is the Equa chair, a high-tech and high-comfort office chair with only one mechanical adjustment, for height. Development on it began shortly after De Pree took over. It was five years in the works—the longest of any Herman Miller product—but it has become a big seller. Production of the chair is expected to triple in this, its second year.

The other is Ethospace Interiors, a "new generation" office system. Its walls are composed of snap-in tiles that can be replaced to change the color and/or texture of an individual's work space, or removed to allow for even an

aquarium or an ant farm. It is an updated version of Action Office II, which, when introduced in 1968, revolutionized the office environment worldwide by giving managers an erector set of options.

De Pree believes his company's products and its people are of equal value. Last year, he created Herman Miller's newest executive position—Vice President for People. Not human resources. Not personnel. People. He filled it with a 36-year-old black woman.

Its manufacturing plants are playfully designed, brightly colored and scattered with lifesize papier-mache figures of men and women at work. To employ-

ees who become new parents, the company awards a classic Charles Eames molded fiberglass chair or a newer Ergon chair, with a rocker base and baby's name on the back. At De Pree's frequent urging, employees use their "gifts" at work.

For example, one of the weekly newsletters published by Jim Nagelkirk, a chair plant supervisor, includes an inspirational Nagelkirk poem called "Rust or Revival," printed immediately above the latest "criteria for zipper installation."

De Pree is as intrigued with the process of designing and manufacturing office furniture and with how fulfilled workers feel about their work as he is with the product.

"What you make is very important. I also think the way in which you do it is very important," he says. "Making a chair is important if you're really making a good chair. And here at Herman Miller, we don't want to do anything that's frivolous, or superficial, and we don't want to do anything that's destructive Yes, I can get excited about making chairs, but also about capitalism, and where it ought to go."

Under current company policy, he must retire as CEO when he turns 65. No De Pree will succeed him because, years ago, he and Hugh decided to institute an anti-nepotism policy that has prohibited any of their children (Max and Esther, his wife of 39 years, have four) from working for the company.

Approaching retirement, De Pree is most concerned by all he fears he will not have time to do. Asked for an example, he does not name a chair design, or a new panel system. Instead, he talks about those who work in his factories and whose photos appeared in his annual report. He dreams, he says, of a time when "people are so familiar with what needs to be done, and why it needs to be done, that how it gets done is not a problem. That would fundamentally change the role of supervision in industry, and that's where I'd like to see it go."

"Out in the plant, for example," he says, "you have several hundred people who manage their own lives well, who are good parents and have been good children, and they have a lot of capability. When they go home at night, they don't actually need a supervisor to tell them how to be a good parent. And being a good parent is a lot tougher than making chairs." ■

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Editorials

Ingenuity goes awry in trying to get a tax gusher from the oil price drop; the Democrats will need ingenuity in November.

Surefire Formula For Turning A Silver Lining Into A Dark Cloud

It takes a great deal of ingenuity to wrap a dark cloud around a silver lining. But an effort to do just that is being made in Washington today by those who see the sharp drop in oil prices as an opportunity to raise taxes.

Their proposals for higher taxes are, of course, not new. They have been pressing them in recent years as the only guaranteed way to deal with the federal deficit. But the oil price drop has produced the rather novel theory of the invisible tax increase.

As the price of imported oil declines, the theory goes, the federal government could slip in an import tax that would scarcely be noticed. Washington would have billions of dollars in added revenues to bring down the deficit, and the consumer/taxpayer would not be paying any more than before for gasoline and other petroleum products.

While that drastically oversimplified view might be held in certain quarters on Capitol Hill, it ignores serious economic considerations involved in the issue. For one, an oil import tax would hurt the U.S. position in world markets. Foreign manufacturers could adjust their prices for the full value of the decline in world oil prices, but their American competitors could not. And the biggest impact of the tax would be on industries, such as steel, automobiles and agriculture, that are already hard-pressed by overseas competition.

The U.S. trade deficit reached a record-breaking \$148.5 billion last year—more than 20 percent higher than the previous year. Under such circumstances, the country certainly doesn't need policies that would drive the trade deficit even higher.

Second, analyses by private and government energy economists show that an oil import tax would mean less economic growth, more inflation and higher unemployment. The billions that would flow to Washington from the levy would be lost to the private sector.

There is also a question of fairness. An oil import tax would trigger appeals for exemptions for those pleading hard-



PHOTO: T. MICHAEL KEZA

ship. They might include consumers of heating oil in cold climates, small refiners and some segments of the petrochemical industry.

Such appeals would generate many others, and the issue could pit regions against regions, industries against industries.

Proposals for a supposedly painless oil import tax have no more validity than other revenue suggestions that have been advanced to reduce the deficit.

It has long been obvious that the most economically sound way to eliminate deficits is to brave the wrath of the special-interest groups and cut federal spending.

Much as some members of Congress would like to believe otherwise, a decline in world oil prices cannot alter that home-front reality.

Between The Lines Of Democrats' Views On The State Of The Union

The Democratic Party's response to President Reagan's State of the Union message probably said far more than the authors of that response had intended. It amounted to an admission by the President's political opponents of the failure of the strategy they have employed against him since his first campaign in 1980.

As he has in previous statements, Reagan cited strong economic growth, low inflation and strengthened national defenses as the hallmarks of his stewardship. When Democrats responded to such statements in the past, they charged that his economic policies had benefited the wealthy at the expense of the needy and that his foreign policies had increased the risk of nuclear war.

Inherent in those allegations was a call for a return to the Democratic programs that dominated national policy prior to Reagan's election.

This year, however, the Democratic response was a low-keyed presentation that contained only indirect criticism of the Reagan administration's social, farm and defense policies.

Why the change? Reagan's opponents have belatedly realized that he has in fact turned the federal government from the failed policies of the past and enjoys strong public support for having done so.

They are also aware that they cannot base a comeback effort on direct attacks on the President or on the changes he has made in the relationship of government to its citizens.

Democratic leaders thus face the prospect of elections in which their candidates will offer voters alternatives to policies that those candidates are reluctant to repudiate. Developing the party's election strategies will be a most difficult challenge.

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